DOCUMENT RESUME

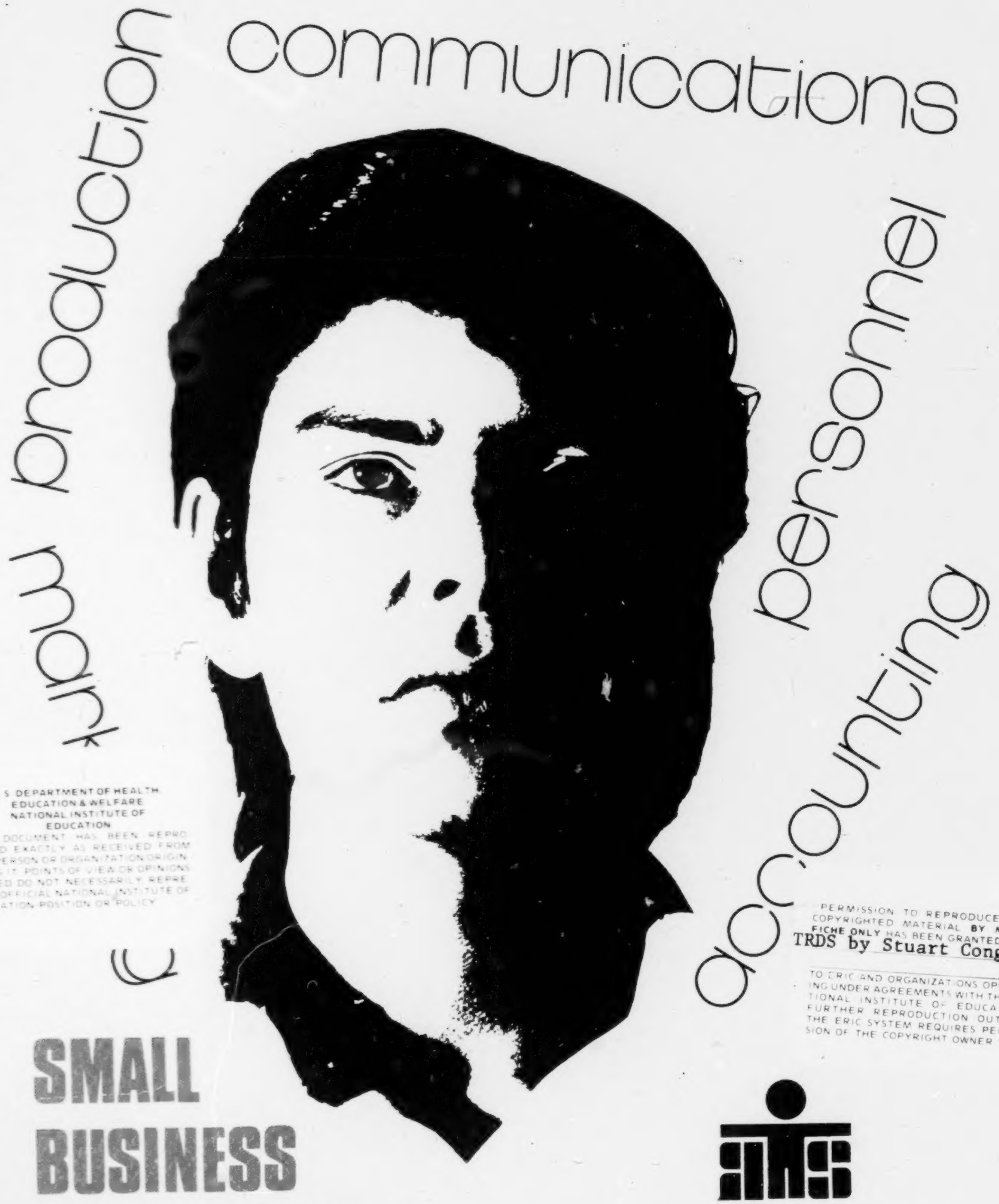
ED 082 055 CE 000 355

AUTHOR	Jeanneau, Joseph A.; And Others
TITLE	Small Business Management. Instructor's Manual. Volume IV. Third Edition.
INSTITUTION	Saskatchewan NewStart, Inc., Prince Albert.; Training Research and Development Station, Prince Albert (Saskatchewan).
PUB DATE	73
NOTE	497p.
AVAILABLE FROM	Training Research and Development Station, Department of Manpower and Immigration, Prince Albert, Saskatchewan ($29.95 for set of four vols. CE 000 351-000 355)
EDRS PRICE	MF-$0.65 HC Not Available from EDRS.
DESCRIPTORS	Adult Education; *American Indians; *Business Subjects; Community Resources; Course Content; Course Descriptions; Course Objectives; Course Organization; Educational Resources; *Lesson Plans; *Management Education; Methods; Teaching Guides; *Vocational Education

ABSTRACT

The volume is one of four containing lesson plans covering a wide range of business subjects incorporated in a course for American Indians to prepare them for jobs as owners/managers of their own businesses and for management positions with businesses owned by bonds, cooperatives, and others. Lesson are drawn from different subject areas and arranged serially. (For instructions on use of the lesson plans in this volume, see Volume 1, CE 000 351. For additional lesson plans, see Volume II, CE 000 352, and Volume III, CE 000 353.) (AG)

ED 082055



U S DEPARTMENT OF HEALTH
EDUCATION & WELFARE
NATIONAL INSTITUTE OF
EDUCATION
THIS DOCUMENT HAS BEEN REPRODUCED EXACTLY AS RECEIVED FROM THE PERSON OR ORGANIZATION ORIGINATING IT. POINTS OF VIEW OR OPINIONS STATED DO NOT NECESSARILY REPRESENT OFFICIAL NATIONAL INSTITUTE OF EDUCATION POSITION OR POLICY

"PERMISSION TO REPRODUCE THIS COPYRIGHTED MATERIAL BY MICROFICHE ONLY HAS BEEN GRANTED BY
TRDS by Stuart Conger

TO ERIC AND ORGANIZATIONS OPERATING UNDER AGREEMENTS WITH THE NATIONAL INSTITUTE OF EDUCATION FURTHER REPRODUCTION OUTSIDE THE ERIC SYSTEM REQUIRES PERMISSION OF THE COPYRIGHT OWNER"

SMALL BUSINESS MANAGEMENT INSTRUCTOR'S MANUAL

Training Research And Development Station
Department Of Manpower And Immigration

VOLUME FOUR

CE 000 355

FILMED FROM BEST AVAILABLE COPY

ED 082055

SMALL BUSINESS MANAGEMENT

INSTRUCTOR'S MANUAL

VOLUME IV

THIRD EDITION

JOSEPH A. JEANNEAU

WITH THE COLLABORATION OF

DENNIS ANDERSON
DOUGLAS MURRAY
WILLIAM LOGAN

TRAINING RESEARCH AND DEVELOPMENT STATION
DEPARTMENT OF MANPOWER AND IMMIGRATION

PRINCE ALBERT, SASKATCHEWAN

© 1970, 1971, 1973

Published by Saskatchewan NewStart Inc.
for the Training Research and Development
Station.

All rights reserved. No part of this book may be reproduced in any form by mimeograph or any other means without permission in writing by the Training Research and Development Station.

Printed in Canada
By Modern Press
Saskatoon, Sask.

TABLE OF CONTENTS

VOLUME IV

CODE	LESSON	PAGE
PM16	Different Pay Plans	1447
FAB26	Payroll Deductions	1455
FAB27	Recording the Payroll	1499
PM17	Labour Legislation	1521
MP12	On-The-Job Training	1527
MKT13	Analyzing Your Market	1533
PROD9	Planning & Scheduling Production	1545
FAB28	The Synoptic Journal	1561
FAB29	Depreciation	1583
FAB30	Year-End Adjustments	1601
FAB31	Preparing Financial Satements	1615
MP13	The Controlling Function	1645
FAB32	Year-End Reporting	1653
FAB33	Personal Income Tax	1671
FAB34	Business Income Tax	1683
FAB35	Financial Management	1693
FAB36	Analyzing the Profit & Loss Statement	1699
FAB37	Analyzing the Balance Sheet	1713
BL8	Special Contracts: General Business Insurance	1733
BL9	Ownership & Transfer of Real Estate	1747
BL10	Leases	1757
BL11	Mortgages	1763
FAB38	Working Capital	1769
FAB39	Planning & Budgeting	1783
FAB40	The Cash Budget	1789
FAB41	The Operating Budget	1809
FAB42	Projected Financial Statements	1827
FAB43	Financing the Business	1855
MP14	The Management Functions Reviewed	1875
PF6	Personal Insurance	1879
PF7	Your Will & Estate	1893
BL12	Insolvency & Bankruptcy	1907
BL13	The Indian Act	1919
OP7	How Can Office Procedures Help Your Business	1921
PROD10	Is Production Management Necessary?	1925
FAB44	Finance, Accounting, Bookkeeping & the Management Process	1935
MP15	Business & the Community	1941
MP16	The Businessman & Business Ethics	1949
MP17	Review of the Course	1955
MP18	Evaluation	1967

ESTIMATED TIME REQUIREMENTS

VOLUME IV

CODE	LESSON	ESTIMATED LESSON TIME (HOURS)	ACTUAL LESSON TIME
PM16	Different Pay Plans	2	
FAB26	Payroll Deductions	4	
FAB27	Recording the Payroll	4	
PM17	Labour Legislation	2	
MP12	On-the-Job Training	30 - 35	
MKT13	Analyzing Your Market	3	
PROD9	Planning & Scheduling Production	6	
FAB28	The Synoptic Journal	5	
FAB29	Depreciation	4	
FAB30	Year-End Adjustments	3	
FAB31	Preparing Financial Statements	5	
MP13	The Controlling Function	2½	
FAB32	Year-End Reporting	3	
FAB33	Personal Income Tax	2½	
FAB34	Business Income Tax	3	
FAB35	Financial Management	1½	
FAB36	Analyzing the Profit & Loss Statement	2½	
FAB37	Analyzing the Balance Sheet	4	
BL8	Special Contracts: Business Insurance	3½	
BL9	Ownership & Transfer of Real Estate	2½	
BL10	Leases	1½	
BL11	Mortgages	2	
FAB38	Working Capital	2½	
FAB39	Planning & Budgeting	1½	
FAB40	The Cash Budget	7	
FAB41	The Operating Budget	3½	
FAB42	Projected Financial Statements	9	
FAB43	Financing the Business	3	
MP14	The Management Functions Reviewed	3	
PF6	Personal Insurance	2	
PF7	Your Will & Estate	3½	
BL12	Insolvency & Bankruptcy	2	
BL13	The Indian Act	2½	
OP7	How Can Office Procedures Help Your Business?	1½	
PROD10	Is Production Management Necessary?	2	
FAB44	Finance, Accounting, Bookkeeping & the Management Process	2	
MP15	Business and the Community	2	
MP16	The Businessman & Business Ethics	1½	
MP17	Review of the Course	10 - 15	
MP18	Evaluation	3 - 4	

SUBJECT PERSONNEL MANAGEMENT

LESSON PM16 DIFFERENT PAY PLANS

INSTRUCTOR'S GUIDE

OVERVIEW

It is likely that the students will have always looked at the matter of wages or salary from the employee's point of view. This is quite natural if they have not previously been in an employer's position.

In this lesson, the students should recognize that pay plans are an expense or cost to the business. They should consider finding the best pay plan possible to reduce the cost of labour and to provide the most satisfaction to employees.

As the course progresses, the students should find it easier to picture themselves in an employer's position. It is essential that they see both sides of a situation, but they should not forget that, as future managers, salary or wage decisions must be made wisely if the business is to remain viable. Seeing the business only from the employee's point of view could present a future manager with serious problems.

OBJECTIVE

Given a particular business situation, the student will be able to choose one of several pay plans that, in his opinion, is the most suitable.

RESOURCES REQUIRED

1. Projectual PM16-1, "Types of Pay Plans".

2. Flip chart.

METHODOLOGY

1. Do not hand out Readings at this point.

Stimulus

2. Ask the students for examples of different ways they have been paid for work they have done in the past.

Clarify Problem

3. List the examples on the flip chart (ask a student to volunteer to look after the flip chart.)

   NOTE: Try to get examples of the following methods of paying employees:

   a. Pay for time spent on job

      (1) straight wages - so many dollars per hour (regular rate, overtime rate) normally for manual or mechanical work.

      (2) straight salary - fixed amount of pay per week, month or year (no pay for overtime) normally for store or office work of a non-manual type.

   b. Pay for amount of work done

      (1) straight piecework - so much pay for each unit produced

      (2) straight commission - so much pay for each unit sold

   c. Combination pay plans. That is, so much for time spent plus so much for amount of work produced

      (1) salary and piecework
      salary and commission

      (2) wages and piecework
      wages and commission

Provide Information

4. Hand out Readings and go over Purpose and Introduction with group

PURPOSE

The purpose of this lesson is to show you the different ways you can pay your workers (pay plans). As an owner-manager, you will have to decide which pay plan is the best for your workers and the business.

INTRODUCTION

Employees see pay as a reward for work done or as a means of living. Managers and owner-managers see pay to their workers as a cost to the business or as an expense. As an owner-manager, you have to recognize that people do not work just for pay. Often a man will work for less money if the boss is fair, the job interesting, the other workers are friendly and the job is seen by many people as being important.

5. Read and discuss Section 1 of the Readings. Give examples and ask for examples to illustrate various parts of the section. The instructor may relate the idea of levels of human needs from lesson PM1 and MP2 to this section. For example, the need for food, shelter, and safety can be satisfied by pay or money, but the need for love, friendship, recognition and accomplishment cannot be satisfied by money alone. The job, friendly fellow workers, and a likable boss can satisfy these needs.

CONTENT

1. How Much Should You Pay Workers?

Every worker has to be paid. The amount you pay each one depends on several things:

a. How much can you afford to pay?
b. How much could he make working for somebody else?
c. How much do you think is fair pay?
d. How much is his job worth compared to the jobs your other workers are doing?

For example, you may be able to afford to pay a worker $2,000.00 in one year, but perhaps he could make $4,000.00

working for somebody else.

You may think $3,000.00 is a fair pay but the other workman you have earns only $2,500.00 and has a harder job.

So you see it is not easy to decide how much you should pay the men you hire. You have to take many factors into consideration and come up with an amount that you can afford and that the employee is willing to accept.

6. Read Sections 2, 3 and 4 of the Readings. Use Projectual PM16-1, "Types of Pay Plans", to help illustrate this section. Discuss.

2. What Pay Plans Should You Use?

A pay plan is a method of payment. There are three main pay plans:

a. Pay for the time spent on the job: so many dollars per week, month or year (called wages for labourers and salary for other workers such as sales people).

b. Pay for the amount of work done: so many dollars for each item made or sold (called piecework for labourers and commission for sales people).

c. Combination pay: salary plus commission or piecework; wages plus piecework or commission.

The type of pay plan to use depends on the kind of work being done:

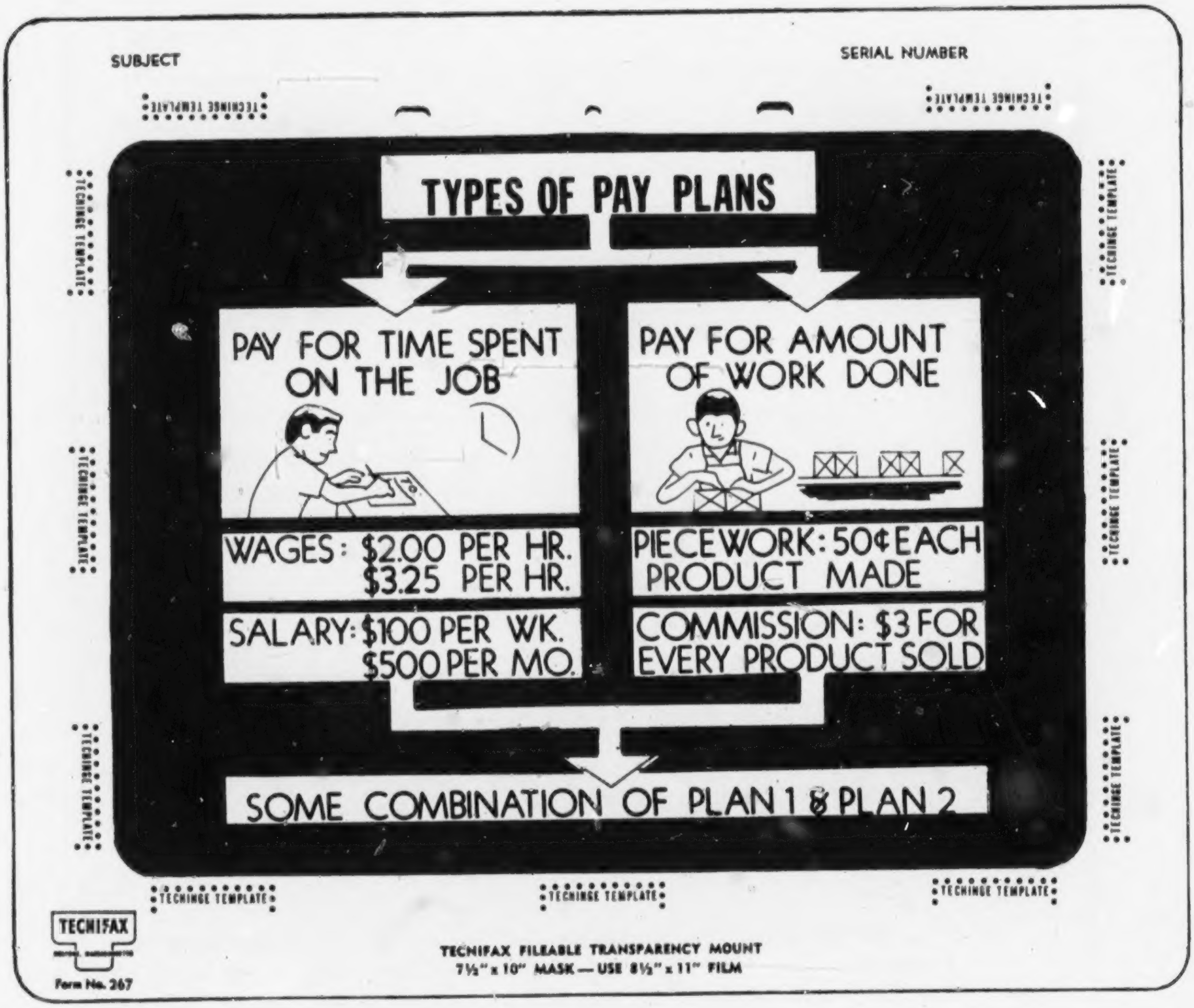
a. Production workers (labourers) are usually paid straight wages, or straight piecework, or a combination of wages and piecework.

b. Salesmen (or sales clerks) are usually paid straight salary, straight commission or a combination of salary and commission.

Piecework and commission pay plans offer a reward for working hard and producing more or selling more. We say that this is providing a money incentive to the worker.

PM16

PM16-1 TYPES OF PAY PLANS



TYPES OF PAY PLANS

PAY FOR TIME SPENT ON THE JOB

PAY FOR AMOUNT OF WORK DONE

WAGES: $2.00 PER HR.
$3.25 PER HR.

PIECEWORK: 50¢ EACH PRODUCT MADE

SALARY: $100 PER WK.
$500 PER MO.

COMMISSION: $3 FOR EVERY PRODUCT SOLD

SOME COMBINATION OF PLAN 1 & PLAN 2

SUBJECT
SERIAL NUMBER
TECHINGE TEMPLATE
TECHNIFAX
Form No. 267
TECHNIFAX FILEABLE TRANSPARENCY MOUNT
7½" x 10" MASK — USE 8½" x 11" FILM

3. What Are Some of the Advantages and Disadvantages of Each Type of Pay Plan?

Type of Plan	Advantages	Disadvantages
straight salary or straight wages	1. Simple to figure out 2. Easy to understand	1. No incentive for the person to work hard. 2. No work, but you still have to pay wages or salary. 3. More supervision of workers may be needed.
straight piecework or straight commission	1. No work, no pay. 2. Low labour costs. 3. High incentive to work: for example, to produce more	1. No security for workers. 2. May get low quality. 3. High cost to administer; for example, lots of paper work. 4. Workers may be unhappy if rates for piecework or commission are too low.
combination plans (salary plus piecework or commission.) (wages plus piecework or commission.)	1. Provide security plus incentive for worker.	1. Hard to calculate. 2. Hard to understand. 3. May cost a lot to administer (paper work).

How you pay your workers will affect the way they work. Piecework or commission pay plans give the worker some incentive to work hard. Salary and wage plans give the worker a steady income and security.

4. Summary

As an employer you must not forget that people work for reasons other than just money. If workers are happy with the way they are paid, then you will probably have better morale in your business. But if you are a poor boss and/or working conditions are poor, you may have trouble keeping workers happy (or they may quit) no matter how much you pay them. Remember, money is important but "money isn't everything".

Indicator

7. Ask students to select and justify the "best" pay plan for the following jobs (or for jobs suggested by the students):

   a. truck driver
   b. grocery store clerk
   c. manager of handicraft business
   d. production worker in handicraft plant
   e. bookkeeper or accountant
   f. garage mechanic
   g. waitress

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB26 PAYROLL DEDUCTIONS

INSTRUCTOR'S GUIDE

OVERVIEW

One of the major expenses of most businesses is the cost of labour. It is essential that a business keep accurate and complete records of how much and when it pays its employees. Payroll records are required by law because of the compulsory payment of income tax, and contributions to Canada Pension Plan and Unemployment Insurance Commission. An exception to the regulations governing contributions to these three programs is the Treaty or Status Indian who earns income on Reserve lands. This person is not subject to the payment of any of the three contributions.

Whether or not an employee is subject to deductions, it is advisable to keep records for individual employees because of the importance of labour costs, wages, etc., in the expenses of any business.

In this lesson the students are shown how to prepare a payroll sheet, how to make deductions from gross pay, and how to record gross pay, deductions, and net pay on to the payroll sheet. The students are also shown how to prepare the necessary records for remitting deductions to the appropriate government department.

OBJECTIVE:

The students will correctly complete a payroll sheet showing the following information:

1. gross pay
2. Unemployment Insurance contributions

3. Canada Pension Plan contributions
4. income tax contributions
5. net pay.

RESOURCES REQUIRED

1. Employee's Tax Deduction Return (TD-1)
2. Tables 192 and 192A, Income Tax Deductions at Source
3. Canada Pension Plan and Unemployment Insurance Tables
4. Application for Social Insurance Number
5. Payroll sheets
6. Exercise FAB26-1, 'McNichol's Store".

Forms and tables used in this lesson are 1972 issue.

REFERENCES for the INSTRUCTOR

Contact the nearest Unemployment Insurance Commission office and District Taxation office to obtain pamphlets, and other materials which are available. You might also arrange that these offices send one of their personnel to discuss income tax, Canada Pension Plan and Unemployment Insurance contributions.

METHODOLOGY

1. Hand out the Readings; read the Purpose and Introduction

> **PURPOSE**
>
> In this lesson you will discuss the various deductions you must take off an employee's pay cheque, and you will learn how to calculate these deductions.

INTRODUCTION

As an employee you must be able to answer the following questions:

1. Does everyone have to pay income tax, Unemployment Insurance contributions and Canada Pension Plan contributions?
2. How much income tax do you deduct from an employee's pay cheque?
3. How much should you deduct for Unemployment Insurance contribution?
4. How much do you deduct for the Canada Pension Plan contributions and how much has the employee contributed to date?
5. Who received the money you deduct from an employee's pay cheque?

You will learn how to calculate the amount of money you must deduct from the employee's pay cheque to pay for income tax and Unemployment Insurance and Canada Pension Plan contributions as required by law.

OBJECTIVE: THE STUDENTS WILL CORRECTLY COMPLETE A PAYROLL SHEET SHOWING THE FOLLOWING INFORMATION:

1. GROSS PAY
2. UNEMPLOYMENT INSURANCE CONTRIBUTIONS
3. CANADA PENSION PLAN CONTRIBUTIONS
4. INCOME TAX CONTRIBUTIONS
5. NET PAY

Stimulus

2. Ask the students how they would go about getting the information asked for in the questions in the Introduction.

Clarify the Problem

3. Have the students discuss how they would obtain this information. The point to bring out is that a set of payroll records will provide the necessary answers.

FAB26

Provide Information

4. Read Sections 1 and 2 of the Readings.

CONTENT

1. Income Tax

a. What is Income Tax?

Income tax is a tax on income; that is, on wages, salaries, bonuses, commissions, investment income, interest and rent. Income tax must be deducted from everyone in Canada, regardless of age, who earns an income above a certain level.

NOTE: Treaty Indians who earn their income working on a reserve do not have to pay income tax on this income. If a Treaty Indian earns his income off the reserve, he must pay income tax on this income.

b. Income Tax Collections

Every business firm which employs workers must collect income tax by deducting it from the wages or salaries of the workers. If you start your own business and hire employees, you must hold back a certain amount of money each time you pay your employees. At the end of the month, the amounts which you have deducted from all employees must be totalled, and a cheque or money order (made payable to the Receiver General of Canada) for the entire amount sent to your bank or to the

Taxation Data Centre
P. O. Box 477
Ottawa 2, Ontario.

A "Tax Deduction - Canada Pension Plan Remittance Return" must be sent with your cheque or money order. The Taxation Data Centre must receive your cheque or money order by the 15th of the following month.

NOTE: You must also pay income tax on the money you earn as owner-manager of the business.

c. Penalties

There are penalties involved if you:

(1) fail to make income tax deductions from employees' wages when you are supposed to make them.

(2) fail to remit income tax which you have deducted from employees to the Taxation Department.

(3) remit income tax deductions to the Taxation Department later than the date required by the Income Tax Act.

The penalty is usually a fine, but in some cases there have been jail sentences as well.

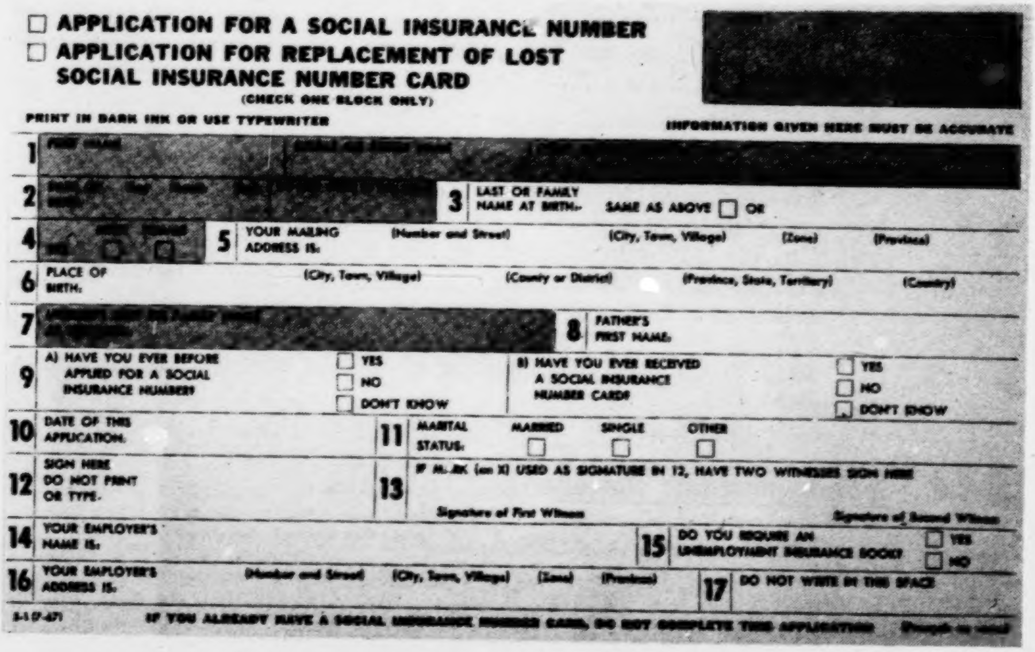
The Taxation Department of the federal government has the power to check your records and books. It is very important that you make all the deductions you are required by law to make, that you keep a record of the deductions, and that you send in the money that you have deducted.

2. Social Insurance Number

The Taxation Department of the federal government in Ottawa keeps a record of each person who has had income tax deducted from his salary or wage, and the amount of tax that has been deducted. In order to avoid problems which might arise from people having the same name, and to speed up the process, the Taxation Department requires that each person have a Social Insurance Number. The Social Insurance Number is also used to keep exact records of each person's contributions to the Canada Pension Plan and the Unemployment Insurance Commission.

"Application for a Social Insurance Number" forms are available from Unemployment Insurance Commission offices. It is wise to have a supply of these forms on hand if you own your own business. If you hire an employee who does not have a Social Insurance Number or has lost it, give the employee one of these forms to fill out. The completed form is sent or taken to the nearest Unemployment Insurance Commission office. Your employee will be sent a new number or a number to replace the one that was lost.

5. Hand out blank application forms for a Social Insurance Number. Instruct the students to complete the form using their personal histories.



☐ **APPLICATION FOR A SOCIAL INSURANCE NUMBER**
☐ **APPLICATION FOR REPLACEMENT OF LOST SOCIAL INSURANCE NUMBER CARD**
(CHECK ONE BLOCK ONLY)

PRINT IN DARK INK OR USE TYPEWRITER

INFORMATION GIVEN HERE MUST BE ACCURATE

1

2

3 LAST OR FAMILY NAME AT BIRTH: SAME AS ABOVE ☐ OR

4 ☐ ☐

5 YOUR MAILING ADDRESS IS: (Number and Street) (City, Town, Village) (Zone) (Province)

6 PLACE OF BIRTH: (City, Town, Village) (County or District) (Province, State, Territory) (Country)

7

8 FATHER'S FIRST NAME:

9 A) HAVE YOU EVER BEFORE APPLIED FOR A SOCIAL INSURANCE NUMBER? ☐ YES ☐ NO ☐ DON'T KNOW

B) HAVE YOU EVER RECEIVED A SOCIAL INSURANCE NUMBER CARD? ☐ YES ☐ NO ☐ DON'T KNOW

10 DATE OF THIS APPLICATION:

11 MARITAL STATUS: MARRIED ☐ SINGLE ☐ OTHER ☐

12 SIGN HERE DO NOT PRINT OR TYPE.

13 IF MARK (an X) USED AS SIGNATURE IN 12, HAVE TWO WITNESSES SIGN HERE

Signature of First Witness

Signature of Second Witness

14 YOUR EMPLOYER'S NAME IS:

15 DO YOU REQUIRE AN UNEMPLOYMENT INSURANCE BOOK? ☐ YES ☐ NO

16 YOUR EMPLOYER'S ADDRESS IS: (Number and Street) (City, Town, Village) (Zone) (Province)

17 DO NOT WRITE IN THIS SPACE

S-1 (7-67) IF YOU ALREADY HAVE A SOCIAL INSURANCE NUMBER CARD, DO NOT COMPLETE THIS APPLICATION

6. Ask the students how they will know the correct amount to deduct from an employee's pay for income tax purposes. Discuss this with the students, then read Section 3a of the Readings.

3. Deducting Income Tax

a. Employee's Tax Deduction Return

There are two things you must know before you can make the proper deductions from each employee.

(1) the amount of money (wages or salary) that the employee is to receive;

(2) the amount of the personal exemptions for each employee.

An employee's Tax Deduction Return (TD-1) form tells you how much his personal exemptions are; that is, the amount of money he is allowed to make during the year on which he does not have to pay income tax. You must make sure that each new employee you hire fills out a TD-1 form. These forms can be obtained from the Income Tax office.

7. Hand out a TD-1 form to each student; instruct them to complete the form.

8. Hand out Tables 192 and 192A, Income Tax Deductions at Source, to students. Read Section 3b of the Readings.

3. b. How to Make Income Tax Deductions

When you know how much each employee makes, and the amount of each employee's personal exemptions, you are ready to use this information and the Tax Tables to determine the amount of income tax to deduct from each employee.

TAX TABLES: These are tables supplied by the Taxation Department which show you how much income tax to deduct from each employee at various wage and salary levels and for different levels of personal exemptions.

You use a different Tax Table for each of the following methods of paying your employees: daily, weekly, every two weeks, twice a month or once a month.

Let us look at an example. Suppose that Bill Reid works for you. You are given the following information about Bill:

-Bill is single (supports only himself) so his personal exemption is $1,500.00.
-You pay Bill $66.00 weekly.
-Bill's Social Insurance Number is 604-415-094.

You can find the amount of income tax which should be deducted from Bill's wages in the booklet, "Income Tax Deductions at Source". Turn to page 16 (Tables 192 and 192A), and the instructor will show you how to find the correct amount.

In this example, the $66.00 is Bill's gross pay, his deduction for income tax is $8.30, and his net pay is $57.70.

The record that you use to keep track of gross pay, deductions and net pay for all employees is called a payroll book or payroll sheet.

9. Using the Income Tax Deduction at Source tables show how the income tax deduction for the example in the Readings is found. The instructor may find the amounts vary from those in the Readings because of a change in the income tax rates.

10. Instruct the students to find the deductions from the following (put on the flip chart):

Employee	$	Pay Period	Exemption	S.I.N.
Bob Mann	$425.00	monthly	2,850	604-090-115
Tom Black	$212.50	bi-weekly	2,850	631-191-115
Ralph Tees	$106.25	weekly	2,850	671-115-991

Have one or more students put their answers on the flip chart. If necessary provide more examples.

Answers:		
	Bob Mann	$40.75 (column 6)
	Tom Black	$23.60 (column 6)
	Ralph Tees	$11.25 (column 6)

11. Hand out payroll sheets. Illustrate how the information contained in section 3b is entered on the payroll sheet. Instruct the students to complete payroll sheets with the information in point 10.

FAB26

NAME Reid, Bill

ADDRESS

AGE

MALE OR FEMALE MALE

MARRIED OR SINGLE SINGLE

RECEIVED UNEMPLOYMENT INSURANCE BOOK

SOCIAL INSURANCE NUMBER 604 - 415 - 094

DATE COMMENCED WORK 19

DATE TERMINATED 19

DATE LAST HOLIDAY 19

TAX DEDUCTIONS

TOTAL EXEMPTIONS $ 1,500.00

COLUMN NUMBER 1

	TIME																TOTAL REGULAR TIME	RATE	TOTAL OVERTIME	RATE	EARNINGS			DEDUCTIONS						AMOUNT PAID	EMPLOYEE'S SIGNATURE
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15						REGULAR	OVERTIME	TOTAL	UNEMP INS	C.P.P. DEDUCT	C.P.P. TO DAT'	INCOME TAX		TOTAL		
	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31															
																							66 00				8 30		8 30	57 70	BReid

FAB26

NAME Bob Mann
ADDRESS

AGE
MALE OR FEMALE Male
MARRIED OR SINGLE Married
RECEIVED UNEMPLOYMENT INSURANCE BOOK

SOCIAL INSURANCE NUMBER 604-090-115

DATE COMMENCED WORK 19
DATE TERMINATED 19
DATE LAST HOLIDAY 19

TAX DEDUCTIONS
TOTAL EXEMPTIONS $ 2,820
COLUMN NUMBER 6

	TIME																TOTAL REGULAR TIME	RATE	TOTAL OVERTIME	RATE	EARNINGS			DEDUCTIONS						AMOUNT PAID	EMPLOYEE'S SIGNATURE
	1 16	2 17	3 18	4 19	5 20	6 21	7 22	8 23	9 24	10 25	11 26	12 27	13 28	14 29	15 30	 31					REGULAR	OVERTIME	TOTAL	UNEMP. INS.	C.P.P. DEDUCT	C.P.P. TO DATE	INCOME TAX		TOTAL		
			Monthly Pay Period																				425.00				40.75		40.75	384.25	Bob Mann

FAB26

NAME Tom Black

ADDRESS

Age

Male or Female MALE

Married or Single MARRIED

Received Unemployment Insurance Book

SOCIAL INSURANCE NUMBER 631-191-115

Date Commenced Work 19

Date Terminated 19

Date Last Holiday 19

TAX DEDUCTIONS

Total Exemptions $ 2,850

Column Number 6

	TIME																[illegible]	[illegible]	[illegible]	[illegible]	EARNINGS			DEDUCTIONS						AMOUNT PAID	EMPLOYEE'S SIGNATURE
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15						REGULAR	OVERTIME	TOTAL	UNEMP. INS.	C.P.P. DEDUCT	C.P.P. TO DATE	INCOME TAX		TOTAL		
	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31															
	Bi-weekly Pay Period																						212 50				23 60		23 60	188 70	Tom Black

FAB26

NAME RALPH TEES

ADDRESS

AGE

MALE OR FEMALE MALE

MARRIED OR SINGLE MARRIED

RECEIVED UNEMPLOYMENT INSURANCE BOOK

SOCIAL INSURANCE NUMBER 671-115-991

DATE COMMENCED WORK 19

DATE TERMINATED 19

DATE LAST HOLIDAY 19

TAX DEDUCTIONS

TOTAL EXEMPTIONS $ 2,850

COLUMN NUMBER 6

	TIME																TOTAL REGULAR TIME	RATE	TOTAL OVERTIME	RATE	EARNINGS			DEDUCTIONS						AMOUNT PAID	EMPLOYEE'S SIGNATURE
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15						REGULAR	OVERTIME	TOTAL	UNEMP. INS.	C.P.P. DEDUCT	C.P.P. TO DATE	INCOME TAX		TOTAL		
	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31															
																							106 25				11 25		11 25	95 00	Ralph Tees

12. Read Section 3c of the Readings.

3. c. New Remitters

If you have just started your own business and have not remitted income tax to the Taxation Department before, you should do the following:

(1) deduct income tax from your employees according to the Tax Tables;

(2) at the end of the first month, total up all these deductions and send a cheque or money order for the entire amount to your nearest Taxation Office. Include a letter stating the name, address and nature of your business and pay period covered by the remittance.

The Taxation Office will give you an "Employer Number", open an account in the name of your business, and send you a "Tax Deduction - Canada Pension Plan Remittance Return" - form PD7A to use the following month when you send in the income tax remittance.

13. Ask the students what the Canada Pension Plan is. Read Section 4 of the Readings and discuss with the students. Hand out Canada Pension Plan and Unemployment Insurance tables.

4. Canada Pension Plan (C.P.P.)

a. What is the Canada Pension Plan?

A pension plan provides the security of an income after retirement.

In the past, some companies had pension plans for their employees, while many others did not. Many self-employed people did not have a pension plan. Furthermore, people who moved from one job to another would have to give up the pension plan they may have had on the first job and start a new pension plan on their next job, if one were available; that is, the benefits were not transferred from one job to another.

The federal government saw a need to correct some of these problems. For instance, it saw a need to make pensions portable so that an employee could continue to pay into the same pension plan throughout his working years. The government also saw the need for a pension plan which would cover as many people and as many situations as possible, such as disability pensions; pensions for widows; benefits for disabled widows and widowers, and for orphans; death benefits.

The Canada Pension Plan was introduced on January 1, 1966. With some exceptions, the Canada Pension Plan is compulsory for all persons between the ages of 18 and 69 who earn over $600.00 per year (if employed) and who earn over $800.00 (if self-employed). The exceptions include:

(1) all those persons who earn less than the above amounts;

(2) persons in casual employment, such as gardeners and cleaning women;

(3) persons employed in agriculture, fishing or lumbering by an employer who pays the employee less than $250.00 a year or employs him for a period of less than 25 days;

(4) persons employed by their spouses.

NOTE: Native people employed on a reserve do not have contributions deducted from their earnings under Canada Pension Plan regulations. Native people employed off a reserve have Canada Pension Plan contributions deducted from their earnings.

b. Canada Pension Plan Contributions

(1) For every worker who earns between $600.00 and $5,300.00, the employer must pay 1.8% of the worker's salary into the Canada Pension Plan.

(2) Self-employed persons do not contribute unless they are earning at least $800.00. They must pay 3.6% of their earnings into the Canada Pension Plan.

(3) Contributions are payable from the age of 18 until the age of 69 (or until retirement from regular employment between the ages of 65 and 70).

(4) In 1972, the maximum amount which could be deducted from an employee was $88.20. The employer would also have contributed $88.20. In the case of a self-employed person, the maximum amount that he would have had to pay in 1972 was $176.40.

c. Collection and Remission of Contributions

If you start your own business and hire workers, you must:

(1) Deduct Canada Pension Plan contributions from their wages or salaries each time they are paid. (Same as deducting income tax from employee's earnings)

(2) Keep track of the deductions in all cases. Stop deducting Canada Pension Plan contributions if the employee's total contribution for the year reaches the total amount which the Canada Pension Plan regulations specify.

(3) At the end of each month, add up all deductions that have been made from your employees for Canada Pension Plan contributions. Add this amount to the total amount of income tax deducted from your employees during the month.

(4) Then make out a cheque (payable to the Receiver General of Canada) for the combined amount (employee income tax deductions plus employee AND employer Canada Pension Plan contributions).

(5) Fill out a "Tax Deduction - Canada Pension Plan Remittance Return" (form PD7A). This form contains two separate spaces - one for the total amount of income tax deductions and another for the total amount of Canada Pension Plan contributions.

(6) Include form PD7A with your cheque when it goes to your bank or to the Taxation Data Centre in Ottawa. This cheque must be sent in before the 15th day of the following month.

Self-employed persons make payments directly to the Taxation Data Centre. When the self-employed contribution for the year is $40.00 or less, it is payable on or before April 30 in the following year. Farmers and fishermen must pay two-thirds of their estimated contribution by December 31 and the remainder by April 30 in the following year. All other self-employed persons must pay one quarter of their estimated contribution by March 31, June 30, September 30 and December 31 and the remainder, if any, by April 30 in the following year.

As is the case with income tax deductions, each employee's Social Insurance Number prevents Canada Pension Plan contributions deducted from one person getting mixed up with contributions deducted from someone else with the same name.

d. New Remitters

If you have just started your own business and have not remitted Canada Pension Plan contributions before, you should do the following:

(1) deduct Canada Pension Plan contributions from your employees according to the "Canada Pension Plan Contribution Tables";

(2) at the end of the first month of operations, total up all these deductions and add the entire amount to the entire amount of income tax deductions. Make out a cheque payable to the Receiver General of Canada for the combined amount and send or take it to your nearest Taxation Office. In your covering letter, state the total amount of Canada Pension Plan Contributions included and pay period covered by these contributions.

As stated earlier, the Taxation Department will assign (give) you an "Employer Number", open an account in the name of your business, and send you a "Tax Deduction - Canada Pension Plan Remittance Return" - form PD7A. You can use this form when you send in both the Income Tax deductions and Canada Pension Plan contributions the following month. The Taxation Department will continue to send you a PD7A form each month.

If you change the address of your business, you must notify

Taxation Data Centre
P. O. Box 477,
Ottawa 2, Ontario.

Be sure to quote your "Employer Number" when you write.

e. How to Make Deductions for C.P.P. Contributions

When you know the gross pay for each employee, and how often each employee is paid, you are ready to use this information and the Canada Pension Plan Contribution Tables supplied by the Taxation Department, to determine the amount of money that should be deducted from each employee for Canada Pension Plan. The wage or salary you pay an employee and the method of payment (weekly, every two weeks, twice a month, or once a month) you use, determines how much you will deduct from an employee for Canada Pension Plan.

To find Bill Reid's Canada Pension Plan deductions (remember that he received $66.00 weekly) look in the Canada Pension Plan Tables on page 8. You can see that the amount to deduct is $.98.

$.00 — $131.26

Remuneration *Rémunération*		C.P.P. *R.P.C.*	U.I. Premium *Prime d'a.-c.*	
From-*de*	To-*à*		Regular *Ordinaire*	Reduced *Réduite*
$ 51.27	$ 51.81	.72	.52	.31
51.82	52.37	.73	.52	.31
52.38	52.92	.74	.53	.32
52.93	53.48	.75	.53	.32
53.49	54.03	.76	.54	.32
54.04	54.59	.77	.54	.33
54.60	55.15	.78	.55	.33
55.16	55.70	.79	.55	.33
55.71	56.26	.80	.56	.34
56.27	56.81	.81	.57	.34
56.82	57.37	.82	.57	.34
57.38	57.92	.83	.58	.35
57.93	58.48	.84	.58	.35
58.49	59.03	.85	.59	.35
59.04	59.59	.86	.59	.36
59.60	60.15	.87	.60	.36
60.16	60.70	.88	.60	.36
60.71	61.26	.89	.61	.37
61.27	61.81	.90	.62	.37
61.82	62.37	.91	.62	.37
62.38	62.92	.92	.63	.38
62.93	63.48	.93	.63	.38
63.49	64.03	.94	.64	.38
64.04	64.59	.95	.64	.39
64.60	65.15	.96	.65	.39
65.16	65.70	.97	.65	.39
65.71	66.26	.98	.66	.40

14. Illustrate how this example would be recorded on a payroll sheet. Instruct students to record the Canada Pension Plan deductions for Bill Reid, Bob Mann, Tom Black and Ralph Tees on their payroll sheets.

FAB26

NAME Reid, Bill

ADDRESS

AGE
MALE OR FEMALE Male
MARRIED OR SINGLE Single
RECEIVED UNEMPLOYMENT INSURANCE BOOK

SOCIAL INSURANCE NUMBER 604-415-094

DATE COMMENCED WORK 19
DATE TERMINATED 19
DATE LAST HOLIDAY 19

TAX DEDUCTIONS
TOTAL EXEMPTIONS $ 1,500
COLUMN NUMBER 1

	TIME																TOTAL REGULAR TIME	RATE	TOTAL OVERTIME	RATE	EARNINGS			DEDUCTIONS						AMOUNT PAID	EMPLOYEE'S SIGNATURE
	1 16	2 17	3 18	4 19	5 20	6 21	7 22	8 23	9 24	10 25	11 26	12 27	13 28	14 29	15 30	31					REGULAR	OVERTIME	TOTAL	UNEMP. INS.	C.P.P. DEDUCT	C.P.P. TO DATE	INCOME TAX		TOTAL		
			Weekly Pay Period																				66.00		98	98	8.30		9.28	56.72	Bill Reid

FAB26

NAME Bob Mann

ADDRESS

AGE
MALE OR FEMALE MALE
MARRIED OR SINGLE MARRIED
RECEIVED UNEMPLOYMENT INSURANCE BOOK

SOCIAL INSURANCE NUMBER 604-090-115

DATE COMMENCED WORK 19
DATE TERMINATED 19
DATE LAST HOLIDAY 19

TAX DEDUCTIONS
TOTAL EXEMPTIONS $ 2,850
COLUMN NUMBER 6

	TIME 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31	TOTAL REGULAR TIME	RATE	TOTAL OVERTIME	RATE	EARNINGS REGULAR	EARNINGS OVERTIME	EARNINGS TOTAL	DEDUCTIONS UNEMP. INS.	DEDUCTIONS C.P.P. DEDUCT	DEDUCTIONS C.P.P. TO DATE	DEDUCTIONS INCOME TAX		DEDUCTIONS TOTAL	AMOUNT PAID	EMPLOYEE'S SIGNATURE
	Monthly Pay Period							425 00		6 75	6 75	40 75		47 50	377 50	Bob Mann

FAB26

Time and Pay Roll Form S-202R

NAME Tom Black

ADDRESS

Age

Male or Female MALE

Married or Single MARRIED

Received Unemployment Insurance Book

SOCIAL INSURANCE NUMBER 631-191-115

Date Commenced Work 19

Date Terminated 19

Date Last Holiday 19

TAX DEDUCTIONS

TOTAL EXEMPTIONS $ 2,850

COLUMN NUMBER 6

	TIME																TOTAL REGULAR TIME	RATE	TOTAL OVERTIME	RATE	EARNINGS			DEDUCTIONS						AMOUNT PAID	EMPLOYEE'S SIGNATURE
	1 16	2 17	3 18	4 19	5 20	6 21	7 22	8 23	9 24	10 25	11 26	12 27	13 28	14 29	15 30	31					REGULAR	OVERTIME	TOTAL	UNEMP. INS.	C.P.P. DEDUCT	C.P.P. TO DATE	INCOME TAX		TOTAL		
	Bi-weekly Pay Period																						212.50		3.41	3.41	23.60		27.01	185.49	Tom Black

FAB26

NAME Ralph Tees
ADDRESS

Age
Male or Female Male
Married or Single Married
Received Unemployment Insurance Book

Social Insurance Number
671-115-991

Date Commenced Work 19
Date Terminated 19
Date Last Holiday 19

TAX DEDUCTIONS
Total Exemptions $ 2,850
Column Number 6

Time and Pay Roll Form S-202R

	TIME																Total Regular Time	Rate	Total Overtime	Rate	EARNINGS			DEDUCTIONS						Amount Paid	Employee's Signature
	1 16	2 17	3 18	4 19	5 20	6 21	7 22	8 23	9 24	10 25	11 26	12 27	13 28	14 29	15 30	 31					Regular	Overtime	Total	Unemp. Ins.	C.P.P. Deduct	C.P.P. To Date	Income Tax		Total		
				Weekly Pay Period																			106 25		1 70	1 70	11 25		12 95	93 30	Ralph Tees

1475

15. Ask the students to explain why Unemployment Insurance is available. Then read and discuss Section 5 of the Readings. Point out that the employer also contributes an amount. Instruct the students to check the example by looking up the contribution in the Unemployment Insurance tables.

5. Unemployment Insurance

Unemployment Insurance provides workers with protection against the uncertainties of employment; that is, against the possibility that the worker will lose his job. Unemployment Insurance is designed to help workers over that period between jobs when they have no money coming in but still need money to provide for themselves and their families.

If you start your own business and hire insurable employees (insurable types of jobs are outlined in the Employer's Handbook on Unemployment Insurance), you must register with the Unemployment Insurance Commission (U.I.C.). Failure to do so is an offence under the Unemployment Insurance Act. You register your business by obtaining and completing an "Employer's Application for Registration and Nature of Business Report". These forms are available from Unemployment Insurance Offices. The Unemployment Insurance (U.I.C.) will give you an Employer's Registration Number which you will use at all times when writing to the Commission or sending in contributions.

(a) Unemployment Insurance Contributions

Every employee (or worker) in an insurable occupation or job must contribute to the Unemployment Insurance Commission (U.I.C.) while he is working. In addition, the employer must contribute 1.4 times the amount the worker contributes.

If you own and operate a business and employ workers in an insurable type of occupation, you must deduct Unemployment Insurance contributions from each worker every time he or she is paid. At the end of each month, you add up all deductions made from the wages or salaries of all your workers during that month.

Suppose the total deducted from all employees during the month is $7.50. Your business must contribute $10.50 for that month. This means that you would send $18.00 to the Department of National Revenue as the unemployment contribution for that month.

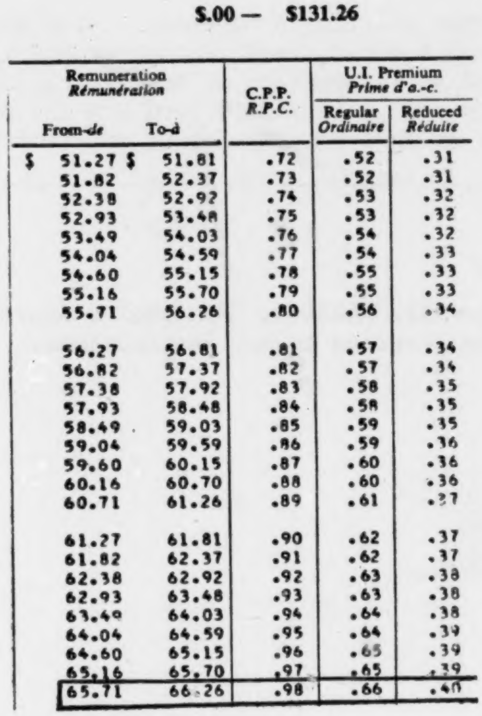
The social insurance number of each employee prevents the contribution from any employee from getting mixed up with the contribution from anyone else.

Up until recently, the deductions for Income Tax and Canada Pension Plan were handled separately from those for Unemployment Insurance. They are now all sent together to the Taxation Department or your bank along with the appropriate form before the 15th day of the month following the deductions.

b. How to Make Deductions for Unemployment Insurance Contributions

When you know the gross pay for each employee, and how often each employee is paid, you are ready to use this information and the Table of Contributions and Deductions from Wages for Unemployment Insurance Contributions to determine the amount of money that should be deducted from each employee for Unemployment Insurance Contributions.

Bill Reid's Unemployment Insurance contribution can be found by looking at the tables on page 8 of the Canada Pension Plan and Unemployment Insurance Contributions tables.



$.00 — $131.26

Remuneration *Rémunération* From-*de*	To-*à*	C.P.P. *R.P.C.*	U.I. Premium *Prime d'a.-c.* Regular *Ordinaire*	Reduced *Réduite*
$ 51.27	$ 51.81	.72	.52	.31
51.82	52.37	.73	.52	.31
52.38	52.92	.74	.53	.32
52.93	53.48	.75	.53	.32
53.49	54.03	.76	.54	.32
54.04	54.59	.77	.54	.33
54.60	55.15	.78	.55	.33
55.16	55.70	.79	.55	.33
55.71	56.26	.80	.56	.34
56.27	56.81	.81	.57	.34
56.82	57.37	.82	.57	.34
57.38	57.92	.83	.58	.35
57.93	58.48	.84	.58	.35
58.49	59.03	.85	.59	.35
59.04	59.59	.86	.59	.36
59.60	60.15	.87	.60	.36
60.16	60.70	.88	.60	.36
60.71	61.26	.89	.61	.37
61.27	61.81	.90	.62	.37
61.82	62.37	.91	.62	.37
62.38	62.92	.92	.63	.38
62.93	63.48	.93	.63	.38
63.49	64.03	.94	.64	.38
64.04	64.59	.95	.64	.39
64.60	65.15	.96	.65	.39
65.16	65.70	.97	.65	.39
65.71	66.26	.98	.66	.40

c. Employee's Contribution Record

A record must be kept of the Unemployment Insurance contributions deducted from each employee's wage. This information is shown in your payroll records.

16. Illustrate how Unemployment Insurance is recorded on the payroll sheet. Instruct the students to record the Unemployment Insurance deductions on the payroll sheets of Bill Reid, Bob Mann, Tom Black and Ralph Tees.

17. Read and discuss Section 6 of the Readings.

6. Summary

Every employer must deduct income tax, Canada Pension Plan contributions, and Unemployment Insurance contributions from each employee's pay. An employer who fails to do so runs the risk of a fine and imprisonment. An exception to the regulations regarding the three compulsory deductions are Treaty or Status Indians employed on Reserve lands. No deductions are made from income they earn doing work on the Reserve lands.

When starting a business, check with the Department of National Revenue, Taxation Department in order to receive up-to-date information as to the regulations under which you must operate. They will send you the necessary forms and tables so that you may deduct and remit contributions.

Indicator

18. Hand out Exercise FAB26-1, "McNichol's Store". Have the students complete the exercise as per instructions.

FAB26

NAME Bill Reid

ADDRESS

AGE

MALE OR FEMALE Male

MARRIED OR SINGLE Single

RECEIVED UNEMPLOYMENT INSURANCE BOOK

SOCIAL INSURANCE NUMBER 604-415-094

DATE COMMENCED WORK 19

DATE TERMINATED 19

DATE LAST HOLIDAY 19

TAX DEDUCTIONS

TOTAL EXEMPTIONS $ 1,500

COLUMN NUMBER 1

	TIME																TOTAL REGULAR TIME	RATE	TOTAL OVERTIME	RATE	EARNINGS			DEDUCTIONS						AMOUNT PAID	EMPLOYEE'S SIGNATURE
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15						REGULAR	OVERTIME	TOTAL	UNEMP. INS.	C.P.P. DEDUCT	C.P.P. TO DATE	INCOME TAX		TOTAL		
	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31															
				Weekly Pay Period																			66 00	59	98	98	8 30		9 87	56 13	Reid

Time and Pay Roll Form S-202R

NAME BOB MANN

ADDRESS

AGE

MALE OR FEMALE MALE

MARRIED OR SINGLE MARRIED

RECEIVED UNEMPLOYMENT INSURANCE BOOK

SOCIAL INSURANCE NUMBER 604-090-115

DATE COMMENCED WORK 19

DATE TERMINATED 19

DATE LAST HOLIDAY 19

TAX DEDUCTIONS
TOTAL EXEMPTIONS $ 2,850
COLUMN NUMBER 6

	TIME																TOTAL REGULAR TIME	RATE	TOTAL OVERTIME	RATE	EARNINGS			DEDUCTIONS						AMOUNT PAID	EMPLOYEE'S SIGNATURE
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15						REGULAR	OVERTIME	TOTAL	UNEMP. INS.	C.P.P. DEDUCT	C.P.P. TO DATE	INCOME TAX		TOTAL		
	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31															
				Monthly Pay Period																			425 00	3 83	6 75	6 75	40 75		51 33	373 67	Bob Mann

Time and Pay Roll Form S-202R

NAME Tom Black

ADDRESS

AGE

MALE OR FEMALE MALE

MARRIED OR SINGLE MARRIED

RECEIVED UNEMPLOYMENT INSURANCE BOOK

SOCIAL INSURANCE NUMBER 631-191-115

DATE COMMENCED WORK 19

DATE TERMINATED 19

DATE LAST HOLIDAY 19

TAX DEDUCTIONS
TOTAL EXEMPTIONS $ 2,850
COLUMN NUMBER 6

	TIME																TOTAL REGULAR TIME	RATE	TOTAL OVERTIME	RATE	EARNINGS			DEDUCTIONS						AMOUNT PAID	EMPLOYEE'S SIGNATURE
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15						REGULAR	OVERTIME	TOTAL	UNEMP. INS.	C.P.P. DEDUCT	C.P.P. TO DATE	INCOME TAX		TOTAL		
	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31															
			Bi-weekly Pay Period																				212 50	1 91	3 41	3 41	23 60		28 92	183 58	Tom Black

Time and Pay Roll Form S-202R

FAB26

NAME Ralph Tres
ADDRESS

AGE
MALE OR FEMALE MALE
MARRIED OR SINGLE MARRIED
RECEIVED UNEMPLOYMENT INSURANCE BOOK

SOCIAL INSURANCE NUMBER
671-115-991

DATE COMMENCED WORK 19
DATE TERMINATED 19
DATE LAST HOLIDAY 19

TAX DEDUCTIONS
TOTAL EXEMPTIONS $ 2,850
COLUMN NUMBER 6

	TIME																[illegible]	[illegible]	[illegible]	[illegible]	EARNINGS			DEDUCTIONS						AMOUNT PAID	EMPLOYEE'S SIGNATURE
	1 16	2 17	3 18	4 19	5 20	6 21	7 22	8 23	9 24	10 25	11 26	12 27	13 28	14 29	15 30	 31					REGULAR	OVERTIME	TOTAL	UNEMP. INS.	C.P.P. DEDUCT	C.P.P. TO DATE	INCOME TAX		TOTAL		
				Weekly Pay Period																			106 25	95	1 70	1 70	11 25		13 90	82 35	Ralph Tres

Time and Pay Roll Form S-202R

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB26 PAYROLL DEDUCTIONS

EXERCISE FAB26 - 1

McNICHOL'S STORE

John McNichol owns and operates a grocery store, hardware store and a bulk oil and gas business.

John has five full time employees and a student who works part-time after school and on Saturdays.

The information about each employee is given below:

1. Mary Smith

   a. Address: Yellow Creek
   b. Social Insurance Number: 614-917-607
   c. Age: 21 years
   d. Single
   e. Salary: $135.00 every two weeks.

2. John Smith

   a. Address: Yellow Creek
   b. Social Insurance Number: 704-321-132
   c. Age: 31 years
   d. Married
   e. John's wife Sally is not working
   f. John has two children: (1) John - age 10 years
      (2) Mary - age 8 years
   g. Salary: $350.00 per month

3. Tim Parten

   a. Address: Yellow Creek
   b. Social Insurance Number: 711-243-618
   c. Age: 19 years
   d. Single
   e. Weekly salary: $72.00

4. Jim John

   a. Address: Yellow Creek
   b. Social Insurance Number: 608-346-912
   c. Age: 20 years
   d. Married
   e. Jim's wife Marie is not working
   f. Jim has two children: (1) Mark - age 9 months
      (2) Mathew - age 9 months
   g. Salary: $81.00 weekly

5. Henry Wolf

   a. Address: Yellow Creek
   b. Social Insurance Number: 603-717-513
   c. Age: 44 years
   d. Married
   e. Henry's wife Hilda is not working
   f. Henry has two children: (1) Bob - age 17 years (a student)
      (2) Cathy - age 12 years
   g. Salary: $200.00 every two weeks

6. Marcel Pelletier

   a. Address: Yellow Creek
   b. Social Insurance Number: 632-576-328
   c. Age: 17 years (a student)
   d. Single
   e. Paid by the hour at the rate of $1.60 and paid once a week
   f. Works: 10 hours a week.

INSTRUCTIONS

1. Determine the gross pay for each pay period (whether weekly, every two weeks, twice a month, or once a month) for each employee during the month of November. Enter these amounts in the spaces provided on the payroll sheets.

2. Determine the amount of income tax to be deducted from each employee's wages and enter these amounts in the spaces provided on the payroll sheets.

3. Determine the amount of Canada Pension Plan (C.P.P.) contributions to be deducted from each employee's wages. Enter these amounts in the spaces provided on the payroll sheets.

4. Determine the amount of Unemployment Insurance (U.I.C.) contributions to be deducted from each employee (using the Table of Contributions and Deductions from Wages). Enter these amounts in the spaces provided on the payroll sheets.

5. Add up the total deductions for income tax, Canada Pension Plan and Unemployment Insurance contributions for each employee, and enter these totals in the spaces provided on the payroll sheets.

6. Calculate the net pay which is to be paid to each employee and enter these amounts in the spaces provided on the payroll sheets.

7. Add up the total income tax deductions and Canada Pension Plan contributions deducted from all employees during the month of November. Fill out a "Tax Deduction - Canada Pension Plan Remittance Return", Form PD7A, and make out a cheque (payable to the Receiver General of Canada) for this amount.

8. Add up the total Unemployment Insurance contributions deducted from all employees during the month of November. Fill out a "Bulk Payment Monthly Remittance" - Form UIC 443D, and make out a cheque (payable to the Receiver General of Canada) for this amount.

9. Complete an "Employee's Contribution Record" - Form UIC 443 for each insurable employee (that is, each employee who has Unemployment Insurance contributions deducted from his wages or salary).

FAB26

CANADA

DEPARTMENT OF NATIONAL REVENUE, TAXATION

EMPLOYEE'S TAX DEDUCTION RETURN

TD 1
Rev. 1972

- **Complete and file one copy of this return with your employer**
  (a) when you commence employment, or (b) within **seven** days of any change affecting your personal exemptions.
- If you do not file this return, as required, income tax will be deducted as though you were a single person without dependants.
- Do not claim a child or other dependant whose net income for the year will exceed $1,600.
- Net income of your spouse or dependants includes any pension or supplement under the Old Age Security Act or any similar Act of a province, benefits under the Canada or Quebec Pension Plan or the Unemployment Insurance Act, 1971.

Family or Last Name (Print) SMITH
Usual First Name and Initials MARY
Present Address (Permanent address) YELLOW CREEK
Name and Address of Spouse

Social Insurance Number 614917607
Date of Birth Day | Month | Year

Claim for Personal Exemptions

Basic Personal Exemption ▶ $ 1,500

Age Exemption—If you are 65 years of age or over Claim $650 ▶ $

Married or Equivalent Exemption—If applicable, check ☑ and claim only one of these 4 items.
If your spouse's net income, while married, will exceed $1,600 in the year, you may not claim this exemption.

Married and supporting spouse

☐ 1. whose net income for the year, while married, will not be over $250 Claim $1,350
☐ 2. whose net income for the year, while married, will be over $250 but not over $1,600 $ 1,600
Less: spouse's net income $
Claim $ ▶ $

Single, divorced, separated or widow(er)

Exemption may be claimed for a relative (a) wholly dependent on you or on you and one or more other persons and (b) living in a dwelling (in which you reside) maintained by you or by you and such other persons of whom the dependant is also a relative. (You may claim here only if it has been agreed that no other person will claim for the same dependant or in respect of the same dwelling.)

If the dependant's
☐ 3. net income for the year will not be over $250, provide details below* and claim $1,350
☐ 4. net income for the year will be over $250, but not over $1,600 $ 1,600
Less: dependant's net income $
Provide details below* and claim $

*Dependant's name
*Relationship to you

Exemption for Wholly Dependent Children

Exemption may be claimed for a wholly dependent son, daughter, grandchild, niece or nephew under age 21 or any age if in full-time attendance at a school or university or infirm. A niece or nephew may be claimed only if (a) you have complete custody and control of the child, or (b) the child resides in Canada and also the mother is a widow or is separated or divorced and does not receive alimony or similar allowance for the child's maintenance, or the father is mentally or physically infirm. Provide details below and claim according to the age and estimated net income of the child, as follows:

Under age 16 at end of the year—If net income will not be over $1,000, claim $300. (If net income will be over $1,000 but not over $1,600, claim $300 minus one-half the amount by which income exceeds $1,000.)

Age 16 or over at end of the year—If net income will not be over $1,050, claim $550. (If net income will be over $1,050 but not over $1,600, claim $550 minus the amount by which income exceeds $1,050.)

No claim may be made here for a child you have claimed in items 3 or 4 above.

Name of child (Attach list if space is insufficient)	*Relationship to you*	*Estimated annual net income*	*Year of Birth*	*If over 21, state school attended or whether infirm*	
					▶ $
					▶ $
					▶ $
					▶ $

Exemption for Other Dependants

(A) Parents, Grandparents, Brothers or Sisters (including in-laws)
(B) Aunts or Uncles Resident in Canada (including in-laws)

Provide details below and claim estimated amount to be spent in support of each dependant (not exceeding the maximum which is determined according to the age and income of the dependant as described in the "Exemption for Wholly Dependent Children" area above. If any other person also contributes to the support of a dependant listed here, the combined amount claimed by you and such other person must not exceed the allowable maximum determined for that dependant. No claim may be made for (a) a dependant over age 21 who is not mentally or physically infirm (unless that dependant is a brother or sister in full-time attendance at a school or university) or (b) a dependant you have claimed in items 3 or 4 above.

Name and address of dependant (Attach list if space is insufficient)	*Dependant's*			*Estimated amount you will spend in support of dependant*	*If over 21, state school attended or whether infirm*	
	Relationship to you	*Net income in year*	*Year of Birth*			
						▶ $
						▶ $

Total Personal Exemptions ▶ $ 1,500

Claim for Tuition Fees by Students Only—Claim the amount by which the tuition fees exceed the total (less $500) of all scholarships, fellowships or bursaries which will be received during the calendar year. Inquire at your District Taxation Office for further information. ▶ $

Total Claim—*(This entry will not be less than $1,500)* ▶ $ 1,500

Exemption Claim for Casual, Seasonal or Part-time Employment—*(Valid for current calendar year only)*
This area must be completed by an employee who is receiving pay at a rate that is subject to tax deduction but who claims exemption because total earnings (including free board and lodging) from all sources for the full calendar year will be less than the total personal exemptions claimed. No claim may be made here by a person not resident in Canada for the whole year unless his earnings for the year in Canada will be less than his exemptions apportioned to the period of residence in Canada.

Income to date this year from all sources ▶ $
Estimated income for remainder of year from all sources ▶ $
Total estimated income from all sources ▶ $

Certification

I HEREBY CERTIFY that the information given in this return is true, correct and complete to the best of my knowledge and belief.

Signature Mary Smith
It is a serious offence to make a false return.
Date January 21 1972

Warning: An employer should refer a form TD1 containing doubtful statements to the District Taxation Office. Any person who knowingly accepts a form TD1 containing false or deceptive statements commits a serious offence. Employers must retain completed forms TD1 for inspection by officers of the Department of National Revenue, Taxation.

Form authorized and prescribed by the Minister of National Revenue

(Français au verso)

FAB26

NAME SMITH, MARY
ADDRESS YELLOW CREEK

AGE
MALE OR FEMALE FEMALE
MARRIED OR SINGLE SINGLE
RECEIVED UNEMPLOYMENT INSURANCE BOOK

SOCIAL INSURANCE NUMBER
614-917-607

DATE COMMENCED WORK 19
DATE TERMINATED 19
DATE LAST HOLIDAY 19

TAX DEDUCTIONS
TOTAL EXEMPTIONS $ 1,500
COLUMN NUMBER 1

	TIME 1 16	2 17	3 18	4 19	5 20	6 21	7 22	8 23	9 24	10 25	11 26	12 27	13 28	14 29	15 30	 31	TOTAL REGULAR TIME	RATE	TOTAL OVERTIME	RATE	EARNINGS REGULAR	OVERTIME	TOTAL	DEDUCTIONS UNEMP. INS.	C.P.P. DEDUCT	C.P.P. TO DATE	INCOME TAX		TOTAL	AMOUNT PAID	EMPLOYEE'S SIGNATURE
Nov 11																							135 00	1 21	2 01	2 01	16 65		19 87	115 13	
25																							135 00	1 21	2 01	4 02	16 65		19 87	115 13	

Time and Pay Roll Form S-202R

FAB26

DEPARTMENT OF NATIONAL REVENUE, TAXATION

CANADA

EMPLOYEE'S TAX DEDUCTION RETURN

TD 1
Rev. 1972

- **Complete and file one copy of this return with your employer**
  (a) when you commence employment, or (b) within **seven days** of any change **affecting** your personal exemptions.
- If you do not file this return, as required, income tax will be deducted as though you were a single person without dependants.
- Do not claim a child or other dependant whose net income for the year will exceed $1,600.
- Net income of your spouse or dependants includes any pension or supplement under the Old Age Security Act or any similar Act of a province, benefits under the Canada or Quebec Pension Plan or the Unemployment Insurance Act, 1971.

Family or Last Name (Print) SMITH
Usual First Name and Initials JOHN
Present Address (Permanent address) YELLOW CREEK
Name and Address of Spouse SALLY

Social Insurance Number 704 321 132
Date of Birth Day Month Year

Claim for Personal Exemptions

Basic Personal Exemption ▶ $ 1,500

Age Exemption—If you are 65 years of age or over Claim $650 ▶ $

Married or Equivalent Exemption—If applicable, check ☑ and claim only one of these 4 items.
If your spouse's net income, while married, will exceed $1,600 in the year, you may not claim this exemption.

Married and supporting spouse

☐ 1. whose net income for the year, while married, will not be over $250 Claim $1,350
☐ 2. whose net income for the year, while married, will be over $250 but not over $1,600 $1,600
Less: spouse's net income $
Claim $

Single, divorced, separated or widow(er)

Exemption may be claimed for a relative (a) wholly dependent on you or on you and one or more other persons and (b) living in a dwelling (in which you reside) maintained by you or by you and such other persons of whom the dependant is also a relative. (You may claim here only if it has been agreed that no other person will claim for the same dependant or in respect of the same dwelling.)

If the dependant's
☐ 3. net income for the year will not be over $250, provide details below* and claim $1,350
☐ 4. net income for the year will be over $250, but not over $1,600 $1,600
Less: dependant's net income $
Provide details below* and claim $

*Dependant's name *Relationship to you

▶ $ 1,350

Exemption for Wholly Dependent Children

Exemption may be claimed for a wholly dependent son, daughter, grandchild, niece or nephew under age 21 or any age if in full-time attendance at a school or university or infirm. A niece or nephew may be claimed only if (a) you have complete custody and control of the child, or (b) the child resides in Canada and also the mother is a widow or is separated or divorced and does not receive alimony or similar allowance for the child's maintenance, or the father is mentally or physically infirm. Provide details below and claim according to the age and estimated net income of the child, as follows:

Under age 16 at end of the year—If net income will not be over $1,000, claim $300. (If net income will be over $1,000 but not over $1,600, claim $300 minus one-half the amount by which income exceeds $1,000.)

Age 16 or over at end of the year—If net income will not be over $1,050, claim $550. (If net income will be over $1,050 but not over $1,600, claim $550 minus the amount by which income exceeds $1,050.)

No claim may be made here for a child you have claimed in items 3 or 4 above.

Name of child (Attach list if space is insufficient)	*Relationship to you*	*Estimated annual net income*	*Year of Birth*	*If over 21, state school attended or whether infirm*	
JOHN	SON	—			▶ $ 300
MARY	DAUGHTER	—			▶ $ 300
					▶ $
					▶ $

Exemption for Other Dependants (A) Parents, Grandparents, Brothers or Sisters (including in-laws)
(B) Aunts or Uncles Resident in Canada (including in-laws)

Provide details below and claim estimated amount to be spent in support of each dependant (not exceeding the maximum which is determined according to the age and income of the dependant as described in the "Exemption for Wholly Dependent Children" area above. If any other person also contributes to the support of a dependant listed here, the combined amount claimed by you and such other person must not exceed the allowable maximum determined for that dependant. No claim may be made for (a) a dependant over age 21 who is not mentally or physically infirm (unless that dependant is a brother or sister in full-time attendance at a school or university) or (b) a dependant you have claimed in items 3 or 4 above.

Name and address of dependant (Attach list if space is insufficient)	*Dependant's*			*Estimated amount you will spend in support of dependant*	*If over 21, state school attended or whether infirm*	
	Relationship to you	*Net income in year*	*Year of Birth*			
						▶ $
						▶ $

Total Personal Exemptions ▶ $ 3,450

Claim for Tuition Fees by Students Only—Claim the amount by which the tuition fees exceed the total (less $500) of all scholarships, fellowships or bursaries which will be received during the calendar year. Inquire at your District Taxation Office for further information. ▶ $

Total Claim—*(This entry will not be less than $1,500)* ▶ $ 3,450

Exemption Claim for Casual, Seasonal or Part-time Employment—*(Valid for current calendar year only)*

This area must be completed by an employee who is receiving pay at a rate that is subject to tax deduction but who claims exemption because total earnings (including free board and lodging) from all sources for the full calendar year will be less than the total personal exemptions claimed. No claim may be made here by a person not resident in Canada for the whole year unless his earnings for the year in Canada will be less than his exemptions apportioned to the period of residence in Canada.

Income to date this year from all sources ▶ $
Estimated income for remainder of year from all sources ▶ $
Total estimated income from all sources ▶ $

Certification

I HEREBY CERTIFY that the information given in this return is true, correct and complete to the best of my knowledge and belief.

Signature John Smith
Date January 5 1972

It is a serious offence to make a false return.

Warning: An employer should refer a form TD1 containing doubtful statements to the District Taxation Office. Any person who knowingly accepts a form TD1 containing false or deceptive statements commits a serious offence. Employers must retain completed forms TD1 for inspection by officers of the Department of National Revenue, Taxation.

Form authorized and prescribed by the Minister of National Revenue

(Français au verso)

FAB26

Time and Pay Roll Form S-202R

NAME Smith, John

ADDRESS Yellow Creek

Age

Male or Female Male

Married or Single Married

Received Unemployment Insurance Book

Social Insurance Number 704-321-132

Date Commenced Work 19

Date Terminated 19

Date Last Holiday 19

TAX DEDUCTIONS

Total Exemptions $ 3,450

Column Number 8

	TIME																Total Regular Time	Rate	Total Overtime	Rate	EARNINGS			DEDUCTIONS						AMOUNT PAID	EMPLOYEE'S SIGNATURE
	1 16	2 17	3 18	4 19	5 20	6 21	7 22	8 23	9 24	10 25	11 26	12 27	13 28	14 29	15 30	31					Regular	Overtime	Total	Unemp. Ins.	C.P.P. Deduct	C.P.P. To Date	Income Tax		Total		
Nov 30																							350 00	2 15	5 40		11 85		19 70	330 30	

FAB26

CANADA

DEPARTMENT OF NATIONAL REVENUE, TAXATION

EMPLOYEE'S TAX DEDUCTION RETURN

TD 1
Rev. 1972

- **Complete and file one copy of this return with your employer** (a) when you commence employment, or (b) within **seven** days of any change **affecting your personal exemptions.**
- **If you do not file this return, as required, income tax will be deducted as though you were a single person without dependants.**
- Do not claim a child or other dependant whose net income for the year will exceed $1,600.
- Net income of your spouse or dependants includes any pension or supplement under the Old Age Security Act or any similar Act of a province, benefits under the Canada or Quebec Pension Plan or the Unemployment Insurance Act, 1971.

Family or Last Name (Print) PARTEN
Usual First Name and Initials Tim
Present Address (Permanent address) YELLOW CREEK
Name and Address of Spouse

Social Insurance Number 7 1 1 2 4 3 6 1 8
Date of Birth
Day | Month | Year

Claim for Personal Exemptions

Basic Personal Exemption ▶ $ 1,500

Age Exemption—If you are 65 years of age or over Claim $650 ▶ $

Married or Equivalent Exemption—If applicable, check ☐ and claim **only one** of these 4 items.
If your spouse's net income, while married, will exceed $1,600 in the year, you may not claim this exemption.

Married and supporting spouse

☐ 1. whose net income for the year, while married, will not be over $250 Claim $1,350

☐ 2. whose net income for the year, while married, will be over $250 but not over $1,600 $1,600
Less: spouse's net income $
Claim $ ▶ $

Single, divorced, separated or widow(er)

Exemption may be claimed for a relative (a) wholly dependent on you or on you and one or more other persons and (b) living in a dwelling (in which you reside) maintained by you or by you and such other persons of whom the dependant is also a relative. (You may claim here only if it has been agreed that no other person will claim for the same dependant or in respect of the same dwelling.)

If the dependant's

☐ 3. net income for the year will not be over $250, provide details below* and claim $1,350

☐ 4. net income for the year will be over $250, but not over $1,600 $1,600
Less: dependant's net income $
Provide details below* and claim $

*Dependant's name
*Relationship to you

Exemption for Wholly Dependent Children

Exemption may be claimed for a wholly dependent son, daughter, grandchild, niece or nephew under age 21 or any age if in full-time attendance at a school or university or infirm. A niece or nephew may be claimed only if (a) you have complete custody and control of the child, or (b) the child resides in Canada and also the mother is a widow or is separated or divorced and does not receive alimony or similar allowance for the child's maintenance, or the father is mentally or physically infirm. Provide details below and claim according to the age and estimated net income of the child, as follows:

Under age 16 at end of the year—If net income will not be over $1,000, claim $300. (If net income will be over $1,000 but not over $1,600, claim $300 minus one-half the amount by which income exceeds $1,000.)

Age 16 or over at end of the year—If net income will not be over $1,050, claim $550. (If net income will be over $1,050 but not over $1,600, claim $550 minus the amount by which income exceeds $1,050.)

No claim may be made here for a child you have claimed in items 3 or 4 above.

Name of child (Attach list if space is insufficient)	*Relationship to you*	*Estimated annual net income*	*Year of Birth*	*If over 21, state school attended or whether infirm*	
					▶ $
					▶ $
					▶ $
					▶ $

Exemption for Other Dependants (A) Parents, Grandparents, Brothers or Sisters (including in-laws)
(B) Aunts or Uncles Resident in Canada (including in-laws)

Provide details below and claim estimated amount to be spent in support of each dependant (not exceeding the maximum which is determined according to the age and income of the dependant as described in the "Exemption for Wholly Dependent Children" area above. If any other person also contributes to the support of a dependant listed here, the combined amount claimed by you and such other person must not exceed the allowable maximum determined for that dependant. No claim may be made for (a) a dependant over age 21 who is not mentally or physically infirm (unless that dependant is a brother or sister in full-time attendance at a school or university) or (b) a dependant you have claimed in items 3 or 4 above.

Name and address of dependant (Attach list if space is insufficient)	*Dependant's*			*Estimated amount you will spend in support of dependant*	*If over 21, state school attended or whether infirm*	
	Relationship to you	*Net income in year*	*Year of Birth*			
						▶ $
						▶ $

Total Personal Exemptions ▶ $ 1,500

Claim for Tuition Fees by Students Only—Claim the amount by which the tuition fees exceed the total (less $500) of all scholarships, fellowships or bursaries which will be received during the calendar year. Inquire at your District Taxation Office for further information. ▶ $

Total Claim—*(This entry will not be less than $1 500)* ▶ $ 1,500

Exemption Claim for Casual, Seasonal or Part-time Employment—*(Valid for current calendar year only)*

This area must be completed by an employee who is receiving pay at a rate that is subject to tax deduction but who claims exemption because total earnings (including free board and lodging) from all sources for the full calendar year will be less than the total personal exemptions claimed. No claim may be made here by a person not resident in Canada for the whole year unless his earnings for the year in Canada will be less than his exemptions apportioned to the period of residence in Canada.

Income to date this year from all sources – – – – – – – – – – – – – – – – – – ▶ $
Estimated income for remainder of year from all sources – – – – – – – – – – – – – – ▶ $
Total estimated income from all sources – – – – – – – – – – – – – – – – – – ▶ $

Certification

I HEREBY CERTIFY that the information given in this return is true, correct and complete to the best of my knowledge and belief.

Signature Tim Parten Date January 3 1972

It is a serious offence to make a false return.

Warning: An employer should refer a form TD1 containing doubtful statements to the District Taxation Office. Any person who knowingly accepts a form TD1 containing false or deceptive statements commits a serious offence. Employers must retain completed forms TD1 for inspection by officers of the Department of National Revenue, Taxation.

Form authorized and prescribed by the Minister of National Revenue

(Français au verso)

NAME PARTEN, TIM
ADDRESS YELLOW CREEK

AGE
MALE OR FEMALE MALE
MARRIED OR SINGLE SINGLE
RECEIVED UNEMPLOYMENT INSURANCE BOOK

SOCIAL INSURANCE NUMBER 711-243-618

DATE COMMENCED WORK 19
DATE TERMINATED 19
DATE LAST HOLIDAY 19

TAX DEDUCTIONS
TOTAL EXEMPTIONS $ 1,500
COLUMN NUMBER 1

Time and Pay Roll Form S-202R

	TIME																TOTAL REGULAR TIME	RATE	TOTAL OVERTIME	RATE	EARNINGS			DEDUCTIONS						AMOUNT PAID	EMPLOYEE'S SIGNATURE
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15						REGULAR	OVERTIME	TOTAL	UNEMP. INS.	C.P.P. DEDUCT	C.P.P. TO DATE	INCOME TAX		TOTAL		
	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31															
Nov 4	✓	✓	✓	✓											✓	✓							72 00	65	1 09	1 09	9 85		11 59	60 41	
11						✓	✓	✓	✓	✓	✓												72 00	65	1 09	2 18	9 85		11 59	60 41	
18	✓	✓	✓										✓	✓	✓								72 00	65	1 09	3 27	9 85		11 59	60 48	
25					✓	✓	✓	✓	✓	✓													72 00	65	1 09	4 36	9 85		11 59	60 41	

FAB26

DEPARTMENT OF NATIONAL REVENUE, TAXATION

CANADA

TD 1
Rev. 1972

EMPLOYEE'S TAX DEDUCTION RETURN

- **Complete and file one copy of this return with your employer**
  (a) when you commence employment, or (b) within seven days of any change affecting your personal exemptions.
- If you do not file this return, as required, income tax will be deducted as though you were a single person without dependants.
- Do not claim a child or other dependant whose net income for the year will exceed $1,600.
- Net income of your spouse or dependants includes any pension or supplement under the Old Age Security Act or any similar Act of a province, benefits under the Canada or Quebec Pension Plan or the Unemployment Insurance Act, 1971.

Family or Last Name (Print) JOHN
Usual First Name and Initials JIM
Present Address (Permanent address) YELLOW CREEK
Name and Address of Spouse MARIE

Social Insurance Number 6 0 8 3 4 6 9 1 2
Date of Birth Day | Month | Year

Claim for Personal Exemptions

Basic Personal Exemption ▶ $ 1,500

Age Exemption—If you are 65 years of age or over Claim $650 ▶ $

Married or Equivalent Exemption—If applicable, check ☑ and claim only one of these 4 items.
If your spouse's net income, while married, will exceed $1,600 in the year, you may not claim this exemption.

Married and supporting spouse

☐ 1. whose net income for the year, while married, will not be over $250 Claim $1,350
☐ 2. whose net income for the year, while married, will be over $250 but not over $1,600 $1,600
Less: spouse's net income $
Claim $

Single, divorced, separated or widow(er)

▶ $ 1,350

Exemption may be claimed for a relative (a) wholly dependent on you or on you and one or more other persons and (b) living in a dwelling (in which you reside) maintained by you or by you and such other persons of whom the dependant is also a relative. (You may claim here only if it has been agreed that no other person will claim for the same dependant or in respect of the same dwelling.)

If the dependant's

☐ 3. net income for the year will not be over $250, provide details below* and claim $1,350
☐ 4. net income for the year will be over $250, but not over $1,600 $1,600
Less: dependant's net income $
Provide details below* and claim $

*Dependant's name *Relationship to you

Exemption for Wholly Dependent Children

Exemption may be claimed for a wholly dependent son, daughter, grandchild, niece or nephew under age 21 or any age if in full-time attendance at a school or university or infirm. A niece or nephew may be claimed only if (a) you have complete custody and control of the child, or (b) the child resides in Canada and also the mother is a widow or is separated or divorced and does not receive alimony or similar allowance for the child's maintenance, or the father is mentally or physically infirm. Provide details below and claim according to the age and estimated net income of the child, as follows:

Under age 16 at end of the year—If net income will not be over $1,000, claim $300. (If net income will be over $1,000 but not over $1,600, claim $300 minus one-half the amount by which income exceeds $1,000.)

Age 16 or over at end of the year—If net income will not be over $1,050, claim $550. (If net income will be over $1,050 but not over $1,600, claim $550 minus the amount by which income exceeds $1,050.)

No claim may be made here for a child you have claimed in items 3 or 4 above.

Name of child (Attach list if space is insufficient)	*Relationship to you*	*Estimated annual net income*	*Year of Birth*	*If over 21, state school attended or whether infirm*	
MARK	SON	—			▶ $ 300
MATHEW	SON	—			▶ $ 300
					▶ $
					▶ $

Exemption for Other Dependants

(A) Parents, Grandparents, Brothers or Sisters (including in-laws)
(B) Aunts or Uncles Resident in Canada (including in-laws)

Provide details below and claim estimated amount to be spent in support of each dependant (not exceeding the maximum which is determined according to the age and income of the dependant as described in the "Exemption for Wholly Dependent Children" area above. If any other person also contributes to the support of a dependant listed here, the combined amount claimed by you and such other person must not exceed the allowable maximum determined for that dependant. No claim may be made for (a) a dependant over age 21 who is not mentally or physically infirm (unless that dependant is a brother or sister in full-time attendance at a school or university) or (b) a dependant you have claimed in items 3 or 4 above.

Name and address of dependant (Attach list if space is insufficient)	*Dependant's*			*Estimated amount you will spend in support of dependant*	*If over 21, state school attended or whether infirm*	
	Relationship to you	*Net income in year*	*Year of Birth*			
						▶ $
						▶ $

Total Personal Exemptions ▶ $ 3,450

Claim for Tuition Fees by Students Only—Claim the amount by which the tuition fees exceed the total (less $500) of all scholarships, fellowships or bursaries which will be received during the calendar year. Inquire at your District Taxation Office for further information. ▶ $

Total Claim—*(This entry will not be less than $1,500)* ▶ $ 3,450

Exemption Claim for Casual, Seasonal or Part-time Employment—*(Valid for current calendar year only)*

This area must be completed by an employee who is receiving pay at a rate that is subject to tax deduction but who claims exemption because total earnings (including free board and lodging) from all sources for the full calendar year will be less than the total personal exemptions claimed. No claim may be made here by a person not resident in Canada for the whole year unless his earnings for the year in Canada will be less than his exemptions apportioned to the period of residence in Canada.

Income to date this year from all sources ▶ $
Estimated income for remainder of year from all sources ▶ $
Total estimated income from all sources ▶ $

Certification

I HEREBY CERTIFY that the information given in this return is true, correct and complete to the best of my knowledge and belief.

Signature Jim John
It is a serious offence to make a false return.

Date January 3 1972

Warning: An employer should refer a form TD1 containing doubtful statements to the District Taxation Office. Any person who knowingly accepts a form TD1 containing false or deceptive statements commits a serious offence. Employers must retain completed forms TD1 for inspection by officers of the Department of National Revenue, Taxation.

Form authorized and prescribed by the Minister of National Revenue

(Français au verso)

FAB26

Time and Pay Roll Form S-202R

NAME JOHN, JIM
ADDRESS YELLOW CREEK

AGE
MALE OR FEMALE MALE
MARRIED OR SINGLE MARRIED
RECEIVED UNEMPLOYMENT INSURANCE BOOK

SOCIAL INSURANCE NUMBER 608-346-912

DATE COMMENCED WORK 19
DATE TERMINATED 19
DATE LAST HOLIDAY 19

TAX DEDUCTIONS
TOTAL EXEMPTIONS $ 3,450
COLUMN NUMBER 8

	TIME																TOTAL REGULAR TIME	RATE	TOTAL OVERTIME	RATE
	1 16	2 17	3 18	4 19	5 20	6 21	7 22	8 23	9 24	10 25	11 26	12 27	13 28	14 29	15 30	31				
Nov 4	✓	✓	✓	✓											✓	✓				
11						✓	✓	✓	✓	✓	✓									
18	✓	✓	✓										✓	✓	✓					
25					✓	✓	✓	✓	✓	✓										

	EARNINGS			DEDUCTIONS						AMOUNT PAID	EMPLOYEE'S SIGNATURE
	REGULAR	OVERTIME	TOTAL	UNEMP. INS.	C.P.P. DEDUCT	C.P.P. TO DATE	INCOME TAX		TOTAL		
Nov 4			81 00	73	1 25	1 25	2 35		4 33	76 67	
11			81 00	73	1 25	2 50	2 35		4 33	76 67	
18			81 00	73	1 25	3 75	2 35		4 33	76 67	
25			81 00	73	1 25	5 00	2 35		4 33	76 67	

FAB26

CANADA

DEPARTMENT OF NATIONAL REVENUE, TAXATION

TD 1
Rev. 1972

EMPLOYEE'S TAX DEDUCTION RETURN

- **Complete and file one copy of this return with your employer**
  (a) when you commence employment, or (b) within **seven** days of any change **affecting** your personal exemptions.
- If you do not file this return, as required, income tax will be deducted as though you were a single person without dependants.
- Do not claim a child or other dependant whose net income for the year will exceed $1,600.
- Net income of your spouse or dependants includes any pension or supplement under the Old Age Security Act or any similar Act of a province, benefits under the Canada or Quebec Pension Plan or the Unemployment Insurance Act, 1971.

Family or Last Name (Print) WOLF
Usual First Name and Initials HENRY
Present Address (Permanent address) YELLOW CREEK
Name and Address of Spouse HILDA

Social Insurance Number 603717513
Date of Birth Day Month Year

Claim for Personal Exemptions

Basic Personal Exemption ▶ $ 1,500

Age Exemption—If you are 65 years of age or over Claim $650 ▶ $

Married or Equivalent Exemption—If applicable, check ☑ and claim only one of these 4 items.
If your spouse's net income, while married, will exceed $1,600 in the year, you may not claim this exemption.

Married and supporting spouse

☐ 1. whose net income for the year, while married, will not be over $250 Claim $ 1,350
☐ 2. whose net income for the year, while married, will be over $250 but not over $1,600 $ 1,600
Less: spouse's net income $
Claim $

Single, divorced, separated or widow(er)

Exemption may be claimed for a relative (a) wholly dependent on you or on you and one or more other persons and (b) living in a dwelling (in which you reside) maintained by you or by you and such other persons of whom the dependant is also a relative. (You may claim here only if it has been agreed that no other person will claim for the same dependant or in respect of the same dwelling.)

If the dependant's
☐ 3. net income for the year will not be over $250, provide details below* and claim $1,350
☐ 4. net income for the year will be over $250, but not over $1,600 $ 1,600
Less: dependant's net income $
Provide details below* and claim $
*Dependant's name
*Relationship to you

▶ $ 1,350

Exemption for Wholly Dependent Children

Exemption may be claimed for a wholly dependent son, daughter, grandchild, niece or nephew under age 21 or any age if in full-time attendance at a school or university or infirm. A niece or nephew may be claimed only if (a) you have complete custody and control of the child, or (b) the child resides in Canada and also the mother is a widow or is separated or divorced and does not receive alimony or similar allowance for the child's maintenance, or the father is mentally or physically infirm. Provide details below and claim according to the age and estimated net income of the child, as follows:

Under age 16 at end of the year—If net income will not be over $1,000, claim $300. (If net income will be over $1,000 but not over $1,600, claim $300 minus one-half the amount by which income exceeds $1,000.)

Age 16 or over at end of the year—If net income will not be over $1,050, claim $550. **(If net income will be over $1,050 but** not over $1,600, claim $550 minus the amount by which income exceeds $1,050.)

No claim may be made here for a child you have claimed in items 3 or 4 above.

Name of child (Attach list if space is insufficient)	*Relationship to you*	*Estimated annual net income*	*Year of Birth*	*If over 21, state school attended or whether infirm*	
BOB	SON				▶ $ 550
CATHY	DAUGHTER				▶ $ 300
					▶ $
					▶ $

Exemption for Other Dependants (A) Parents, Grandparents, Brothers or Sisters (including in-laws)
(B) Aunts or Uncles Resident in Canada (including in-laws)

Provide details below and claim estimated amount to be spent in support of each dependant (not exceeding the maximum which is determined according to the age and income of the dependant as described in the "Exemption for Wholly Dependent Children" area above. If any other person also contributes to the support of a dependant listed here, the combined amount claimed by you and such other person must not exceed the allowable maximum determined for that dependant. No claim may be made for (a) a dependant over age 21 who is not mentally or physically infirm (unless that dependant is a brother or sister in full-time attendance at a school or university) or (b) a dependant you have claimed in items 3 or 4 above.

Name and address of dependant (Attach list if space is insufficient)	*Dependant's*			*Estimated amount you will spend in support of dependant*	*If over 21, state school attended or whether infirm*	
	Relationship to you	*Net income in year*	*Year of Birth*			
						▶ $
						▶ $

Total Personal Exemptions ▶ $ 3,700

Claim for Tuition Fees by Students Only—Claim the amount by which the tuition fees exceed the total (less $500) of all scholarships, fellowships or bursaries which will be received during the calendar year. Inquire at your District Taxation Office for further information. ▶ $

Total Claim—*(This entry will not be less than $1,500)* ▶ $ 3,700

Exemption Claim for Casual, Seasonal or Part-time Employment—*(Valid for current calendar year only)*

This area must be completed by an employee who is receiving pay at a rate that is subject to tax deduction but who claims exemption because total earnings (including free board and lodging) from all sources for the full calendar year will be less than the total personal exemptions claimed. No claim may be made here by a person not resident in Canada for the whole year unless his earnings for the year in Canada will be less than his exemptions apportioned to the period of residence in Canada.

Income to date this year from all sources ▶ $
Estimated income for remainder of year from all sources ▶ $
Total estimated income from all sources ▶ $

Certification

I HEREBY CERTIFY that the information given in this return is true, correct and complete to the best of my knowledge and belief.

Signature Henry Wolf Date January 21 19 72
It is a serious offence to make a false return.

Warning: An employer should refer a form TD1 containing doubtful statements to the District Taxation Office. Any person who knowingly accepts a form TD1 containing false or deceptive statements commits a serious offence. Employers must retain completed forms TD1 for inspection by officers of the Department of National Revenue, Taxation.
Form authorized and prescribed by the Minister of National Revenue (Français au verso)

FAB26

NAME WOLFE, HENRY
ADDRESS YELLOW CREEK

AGE
MALE OR FEMALE MALE
MARRIED OR SINGLE MARRIED
RECEIVED UNEMPLOYMENT INSURANCE BOOK

SOCIAL INSURANCE NUMBER
603-717-513

DATE COMMENCED WORK 19
DATE TERMINATED 19
DATE LAST HOLIDAY 19

TAX DEDUCTIONS
TOTAL EXEMPTIONS $ 3,700
COLUMN NUMBER 9

Time and Pay Roll Form S-202R

	TIME																TOTAL REGULAR TIME	RATE	TOTAL OVERTIME	RATE	EARNINGS			DEDUCTIONS						AMOUNT PAID	EMPLOYEE'S SIGNATURE
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15						REGULAR	OVERTIME	TOTAL	UNEMP. INS. ¢	C.P.P. DEDUCT	C.P.P. TO DATE	INCOME TAX		TOTAL		
	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31															
Nov 11																							200 00	1 80	2 18		11 50		16 48	183 52	
25																							200 00	1 80	2 18		11 50		16 48	183 52	

FAB26

DEPARTMENT OF NATIONAL REVENUE, TAXATION

TD 1
Rev. 1972

CANADA

EMPLOYEE'S TAX DEDUCTION RETURN

- **Complete and file one copy of this return with your employer**
  (a) when you commence employment, or (b) within **seven** days of any change affecting your personal exemptions.
- If you do not file this return, as required, income tax will be deducted as though you were a single person without dependants.
- Do not claim a child or other dependant whose net income for the year will exceed $1,600.
- Net income of your spouse or dependants includes any pension or supplement under the Old Age Security Act or any similar Act of a province, benefits under the Canada or Quebec Pension Plan or the Unemployment Insurance Act, 1971.

Family or Last Name (Print) PELLETIER
Usual First Name and Initials MARCEL
Present Address (Permanent address) YELLOW CREEK
Name and Address of Spouse

Social Insurance Number 6 3 2 5 7 6 3 2 8
Date of Birth Day | Month | Year

Claim for Personal Exemptions

Basic Personal Exemption ▶ $ 1,500

Age Exemption—If you are 65 years of age or over Claim $650 ▶ $

Married or Equivalent Exemption—If applicable, check ☑ and claim only one of these 4 items.
If your spouse's net income, while married, will exceed $1,600 in the year, you may not claim this exemption.

Married and supporting spouse

☐ 1. whose net income for the year, while married, will not be over $250 Claim $1,350
☐ 2. whose net income for the year, while married, will be over $250 but not over $1,600 $ 1,600
Less: spouse's net income $
Claim $

Single, divorced, separated or widow(er) ▶ $

Exemption may be claimed for a relative (a) wholly dependent on you or on you and one or more other persons and (b) living in a dwelling (in which you reside) maintained by you or by you and such other persons of whom the dependant is also a relative. (You may claim here **only** if it has been agreed that no other person will claim for the same dependant or in respect of the same dwelling.)

If the dependant's

☐ 3. net income for the year will not be over $250, provide details below* and claim $1,350
☐ 4. net income for the year will be over $250, but not over $1,600 $ 1,600
Less: dependant's net income $
Provide details below* and claim $

*Dependant's name
*Relationship to you

Exemption for Wholly Dependent Children

Exemption may be claimed for a wholly dependent son, daughter, grandchild, niece or nephew under age 21 or any age if in full-time attendance at a school or university or infirm. A niece or nephew may be claimed only if (a) you have complete custody and control of the child, or (b) the child resides in Canada and also the mother is a widow or is separated or divorced and does not receive alimony or similar allowance for the child's maintenance, or the father is mentally or physically infirm. Provide details below and claim according to the age and estimated net income of the child, as follows:

Under age 16 at end of the year—If net income will not be over $1,000, claim $300. (If net income will be over $1,000 but not over $1,600, claim $300 minus one-half the amount by which income exceeds $1,000.)

Age 16 or over at end of the year—If net income will not be over $1,050, claim $550. (If net income will be over $1,050 but not over $1,600, claim $550 minus the amount by which income exceeds $1,050.)

No claim may be made here for a child you have claimed in items 3 or 4 above.

Name of child (Attach list if space is insufficient)	*Relationship to you*	*Estimated annual net income*	*Year of Birth*	*If over 21, state school attended or whether infirm*	
					▶ $
					▶ $
					▶ $
					▶ $

Exemption for Other Dependants (A) Parents, Grandparents, Brothers or Sisters (including in-laws)
(B) Aunts or Uncles Resident in Canada (including in-laws)

Provide details below and claim estimated amount to be spent in support of each dependant (not exceeding the maximum which is determined according to the age and income of the dependant as described in the "Exemption for Wholly Dependent Children" area above. If any other person also contributes to the support of a dependant listed here, the combined amount claimed by you and such other person must not exceed the allowable maximum determined for that dependant. No claim may be made for (a) a dependant over age 21 who is not mentally or physically infirm (unless that dependant is a brother or sister in full-time attendance at a school or university) or (b) a dependant you have claimed in items 3 or 4 above.

Name and address of dependant (Attach list if space is insufficient)	*Dependant's*			*Estimated amount you will spend in support of dependant*	*If over 21, state school attended or whether infirm*	
	Relationship to you	*Net income in year*	*Year of Birth*			
						▶ $
						▶ $

Total Personal Exemptions ▶ $ 1,500

Claim for Tuition Fees by Students Only—Claim the amount by which the tuition fees exceed the total (less $500) of all scholarships, fellowships or bursaries which will be received during the calendar year. Inquire at your District Taxation Office for further information. ▶ $

Total Claim—*(This entry will not be less than $1,500)* ▶ $ 1,500

Exemption Claim for Casual, Seasonal or Part-time Employment—*(Valid for current calendar year only)*

This area must be completed by an employee who is receiving pay at a rate that is subject to tax deduction but who claims exemption because total earnings (including free board and lodging) from all sources for the full calendar year will be less than the total personal exemptions claimed. No claim may be made here by a person not resident in Canada for the whole year unless his earnings for the year in Canada will be less than his exemptions apportioned to the period of residence in Canada.

Income to date this year from all sources ▶ $
Estimated income for remainder of year from all sources ▶ $
Total estimated income from all sources ▶ $

Certification

I HEREBY CERTIFY that the information given in this return is true, correct and complete to the best of my knowledge and belief.

Signature Marcel Pelletier Date Jan 4 1972

It is a serious offence to make a false return.

Warning: An employer should refer a form TD1 containing doubtful statements to the District Taxation Office. Any person who knowingly accepts a form TD1 containing false or deceptive statements commits a serious offence. Employers must retain completed forms TD1 for inspection by officers of the Department of National Revenue, Taxation.

Form authorized and prescribed by the Minister of National Revenue (Français au verso)

NAME Pelletier, Marcel

ADDRESS Yellow Creek

AGE

MALE OR FEMALE Male

MARRIED OR SINGLE Single

RECEIVED UNEMPLOYMENT INSURANCE BOOK

SOCIAL INSURANCE NUMBER 632-576-328

DATE COMMENCED WORK 19

DATE TERMINATED 19

DATE LAST HOLIDAY 19

TAX DEDUCTIONS

TOTAL EXEMPTIONS $ 1,500

COLUMN NUMBER

	TIME																[illegible]	RATE	[illegible]	RATE	EARNINGS			DEDUCTIONS						AMOUNT PAID	EMPLOYEE'S SIGNATURE
	1 16	2 17	3 18	4 19	5 20	6 21	7 22	8 23	9 24	10 25	11 26	12 27	13 28	14 29	15 30	31					REGULAR	OVERTIME	TOTAL	UNEMP. INS.	C.P.P. DEDUCT	C.P.P. TO DATE	INCOME TAX		TOTAL		
Nov 11						1	1	1	1	1	5						10	1 60			16 00		16 00	/	/		/		/	16 00	
18	1	1	5										1	1	1		10	1 60			16 00		16 00							16 00	
25					1	1	1	1	1	5							10	1 60			16 00		16 00							16 00	

Time and Pay Roll Form S-202R

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB27 RECORDING THE PAYROLL

INSTRUCTOR'S GUIDE

OVERVIEW

Proper payroll records must be kept by the businessman in order to meet the regulations laid down by the Department of National Revenue, Taxation Branch. In lesson FAB26, "Payroll Deductions", the students learned how to prepare records for individual employees. In this lesson they learn how to record the payroll into their books and to remit payments of withheld deductions as required by law.

A payroll register is used to summarize the individual pay sheets and to help in the posting of the books. Information from the payroll register is used to determine what amounts to debit or credit to the various expense and payable accounts involved in payroll. The student is shown how to prepare the payroll register and then how to post the General Ledger accounts from it.

OBJECTIVE

The students will be able to prepare and post a payroll register.

RESOURCES REQUIRED

1. Exercise FAB27-1, "The Payroll Register".
2. Multi-column Journal sheets.

FAB27

METHODOLOGY

1. Hand out the Readings, and read the Purpose and Introduction.

PURPOSE

In this lesson you will be shown how to record the information on individual pay sheets into a payroll register.

INTRODUCTION

Detailed and accurate payroll records are needed for determining the amount of money paid out to employees, the amount of money paid to the government on behalf of employees, and the amount of money paid to the government on behalf of the business as required by the Department of National Revenue for the Unemployment Insurance Commission and Canada Pension Plan regulations. All this information is recorded into a special form called a payroll register.

OBJECTIVE: THE STUDENTS WILL BE ABLE TO PREPARE AND POST A PAYROLL REGISTER.

Stimulus

2. Ask the students how they would record the payroll into the books of the business.

Clarify the Problem

3. Discuss, having the students outline as clearly as possible the bookkeeping procedure they would follow.

Provide Information

4. Suggest that a summary form called a payroll register is useful in posting the payroll to the books of a business.

5. Read Section 1 of the Readings.

CONTENT

1. The Payroll Register

The manager of a business is interested in knowing the total amounts of money paid in wages and withheld for Canada Pension Plan, unemployment insurance and income tax. Therefore, each pay day, information from individual pay sheets is collected on the payroll register.

Pay Day November 25, 19

2 weeks ending

EMPLOYEE	EXEMPTION CATEGORY	TOTAL EARNINGS	INCOME TAX	U.I.C.	C.P.P.	TOTAL DEDUCTIONS	NET PAY	CHEQUE NUMBER
T. Bailey	4	250.00	38.85	2.25	4.08	45.18	204.82	37
C. Nimes	1	125.00	14.70	1.12	1.83	17.65	107.35	38
R. Roberts	4	300.00	53.75	2.70	4.98	61.43	238.57	39
T. Smith	2	205.00	32.45	1.84	3.27	37.56	167.44	40
TOTALS		880.00	139.75	7.91	14.16	161.82	718.18	

Note: Before the session, prepare several payroll registers on the flip chart.

6. Hand out multi-column Journal sheets to the students. Have them head up the columns as illustrated in the example in the Readings.

7. Read Section 2 of the Readings. Instruct the students to follow the recording procedure outlined, using the information provided in the pay sheet of T. Bailey.

2. Recording in the Payroll Register

At the top of the payroll is the date of the end of the pay period: 2 weeks ending November 25.

The name of each employee and all the necessary information on his pay sheet is recorded into the proper columns of the payroll register. Let us look at the entries for

T. Bailey. His payroll sheet, from which the information is taken, is attached at the end of the lesson.

The name of the employee is written in the column of the payroll register headed EMPLOYEE.

In the payroll register column headed EXEMPTION CATEGORY, the column number of the TAX DEDUCTIONS block on the pay sheet is placed. This indicates the category of exemptions declared by the employee on his TD1 form. T. Bailey is claiming $2,350.00 in exemptions, and is in category 4.

The TOTAL EARNINGS column indicates the gross earnings of the employee during the pay period. During the two-week period, T. Bailey has earned $250.00 gross.

In the INCOME TAX column is entered the amount of income tax deducted from the present pay cheque and corresponds to the income tax figure on the pay sheet. T. Bailey has had $38.85 deducted from his wages.

The amount of unemployment insurance deducted from the present pay cheque is entered in the payroll register column headed U.I.C. This figure corresponds to the unemployment insurance figure on the individual's pay sheet. T. Bailey has had $2.25 deducted from his gross earnings for unemployment insurance.

In the column entitled C.P.P., the amount of Canada Pension Plan contributions deducted from the gross earnings of the pay period is recorded. The figure entered on the payroll register corresponds to the amount recorded in the C.P.P. deduction column of the individual's pay sheet. T. Bailey had contributed $4.08 to Canada Pension during the pay period.

The deductions (income tax, U.I.C. and C.P.P.) are totalled and the total is recorded in the payroll register column entitled TOTAL DEDUCTIONS. Total deductions for T. Bailey during the period are $45.18.

The figure that is entered in the column NET PAY is the difference between total earnings and total deductions. This is the take-home pay of the employee. T. Bailey receives net pay of $204.82.

The number of the cheque issued to the employee for his net pay is recorded in the payroll register column entitled CHEQUE NUMBER. T. Bailey was given cheque number 38.

Now that you have recorded all the information for T. Bailey, you turn to the pay sheet of the next employee to be paid and record the information in the same manner.

After all the pay sheets have been recorded into the payroll register, you total the following columns:

Total Earnings
Income Tax
U.I.C.
C.P.P.
Total Deductions
Net Pay

The totals are then used to journalize the payroll.

8. Have the students head up a Cash Payments Journal and a General Journal.

9. Read Section 3. Instruct students to record deductions shown in the Payroll Register, in the Cash Payments Journal and the General Journal as shown in the examples.

3. Journalizing and Posting the Payroll

After the totals of the deductions and the net pay are found, you use these totals to record the payment of the payroll into your Cash Payments Journal and your General Journal.

The total of the net column is recorded in the Cash Payment Journal as follows:

Cash Payments Journal

date	description	acct/Pay (Dr)	owner's drawing (Dr)	expenses (Dr)	wages (Dr)	misc (Dr)	Bank (Cr)
Jan 28	wages expense				718 18		718 18

Wages expense is debited $718.18 and bank is credited $718.18. The entry shows that on November 25, 19__, cheques totalling $718.18 were given out for payroll. The exact details can be found in the payroll register and details for individuals can be found in the pay sheets.

The total amounts withheld from the employee's pay cheques as required by the Department of National Revenue, Taxation Branch, are recorded in the General Journal. The totals for income tax and for Unemployment Insurance and Canada Pension Plan contributions that were determined in the payroll register are recorded in the General Journal. The employer is required by law to contribute 1.4 times the amount for Unemployment Insurance and Canada Pension Plan, and these are recorded in the General Journal.

The General Journal entries for November 25 are shown below.

Nov 25	wages expense	183 89		
25	UIC-CPP expense	25 23		
25	accounts payable control		308 12	
	income tax	161 [illegible]		
	UIC-CPP employee	22 07		
	UIC-CPP employer	25 23		

The credit entries are immediately posted to the following accounts in the Accounts Payable Subsidiary Ledger:

(1) income tax payable -
(2) U.I.C. - C.P.P. employee -
(3) U.I.C. - C.P.P. employer -

The amount recorded to U.I.C. - C.P.P. as paid by the employer is the same as employee for C.P.P. and 1.4 times employee U.I.C. $14.16 + (7.91 X 1.4) = $11.04.

The totals of the income tax payable, U.I.C. - C.P.P. employee and U.I.C. - C.P.P. employer accounts are posted to the accounts payable control account in the General Ledger.

The off-setting debit entries are posted to wages expense and U.I.C. - C.P.P. expense accounts in the General Ledger.

10. Explain the manner of determining the amount of UIC-CPP expense and UIC-CPP employer. UIC-CPP expense is the amount shown in the payroll register. The employer portion is simply the sum of the CPP deductions for the employees plus 1.4 times the employee UIC deductions. It should also be noted that wages expense recorded in the Cash Payments Journal plus wages expense in the General Journal should total the gross earnings of the employee as noted in the payroll register under total earnings.

Cash Payment Journal	wages expense	$718.18
General Journal	wages expense	161.82
	Total	$880.00

12. Read Section 4 of the Readings. Instruct the students to record the example in the Readings into their Cash Payments Journal.

4. Remittance of Income Tax, U.I.C. and C.P.P.

The amounts withheld for income tax, U.I.C. and C.P.P. from the employee's pay cheques plus the amount contributed for U.I.C. and C.P.P. by the employer must be remitted by the 15th of the month following the payment of wages.

The amount remitted is the total of the income tax payable, U.I.C. - C.P.P. employee and U.I.C. - C.P.P. employer accounts payable.

A cheque made payable to the Receiver General of Canada is issued and sent to the nearest bank or credit union along with the proper remittance form. The payment is recorded in the Cash Payments Journal as follows:

Cash Payments Journal

date	description	acct / Pay (Dr)	owner's drawing (Dr)	expenses (Dr)	wages (Dr)	misc (Dr)	Bank (Cr)
Dec 5	Receiver General	209 12					209 12

13. Read and discuss Section 5 of the Readings.

5. Summary

Wages represent a large expense item in most businesses and this reason alone would justify the keeping of special payroll records. Another important reason for keeping special payroll records is that government regulations demand that they be kept. In this lesson you learned how to record the information from the individual pay sheets onto a payroll register. You then learned to post the totals from the payroll register to the proper accounts in the General Ledger.

For your own purposes and protection, you must keep proper up-to-date payroll records. Payroll records must be kept on file until written permission is received from the Department of National Revenue, Taxation Branch, that they can be destroyed. Your payroll records must be kept up-to-date (as required by law) in order that the Taxation Branch can inspect them whenever they wish.

Indicator

14. Hand out Exercise FAB27-1, "The Payroll Register". Instruct the students to prepare and post a payroll register using the information in the exercise.

FAB27

NAME Tom Bailey
ADDRESS Middle Rapids

AGE 30
MALE OR FEMALE male
MARRIED OR SINGLE MARRIED
RECEIVED UNEMPLOYMENT INSURANCE BOOK

SOCIAL INSURANCE NUMBER 711-333-001

DATE COMMENCED WORK October 30 19 72
DATE TERMINATED 19
DATE LAST HOLIDAY 19

TAX DEDUCTIONS
TOTAL EXEMPTIONS $ 2350.
COLUMN NUMBER 4

Time and Pay Roll Form S-202R

1972	TIME 1 16	2 17	3 18	4 19	5 20	6 21	7 22	8 23	9 24	10 25	11 26	12 27	13 28	14 29	15 30	 31	TOTAL REGULAR TIME	RATE	TOTAL OVERTIME	RATE	EARNINGS REGULAR	OVERTIME	TOTAL	DEDUCTIONS UNEMP. INS.	C.P.P. DEDUCT	C.P.P. TO DATE	INCOME TAX		TOTAL	AMOUNT PAID	EMPLOYEE'S SIGNATURE
Nov 11	✓	✓	✓	✓	—	✓	✓	✓	✓	✓	✓				✓	✓					250.00		250.00	2.25	4.08	4.08	38.85		45.18	204.82	Tom Bailey
Nov 25	✓	✓	✓	—	✓	✓	✓	✓	✓	✓		—	✓	✓	✓						250.00		250.00	2.25	4.08	8.16	38.85		45.18	204.82	Tom Bailey

FAB27

PAYROLL REGISTER

Pay Period Ending November 18/72

EMPLOYEE	EXEMPTION CATEGORY	TOTAL EARNINGS	INCOME TAX	U.I.C.	C.P.P.	TOTAL DEDUCTIONS	NET PAY	CHEQUE NO.
J. Goodlad	1	85.00	12.95	-.76	1.32	15.03	69.97	114
T. Lapointe	1	125.00	24.05	1.12	2.04	27.21	97.79	115
L. Miller	6	98.00	9.65	-.88	1.56	12.09	85.91	116
M. Warren	8	112.00	10.30	1.01	1.81	13.12	98.88	117
TOTALS		420.00	56.95	3.77	6.73	67.45	352.55	

PAYROLL REGISTER

Pay Period Ending November 25/72

EMPLOYEE	EXEMPTION CATEGORY	TOTAL EARNINGS	INCOME TAX	U.I.C.	C.P.P.	TOTAL DEDUCTIONS	NET PAY	CHEQUE NO.
J. Goodlad	1	85.00	12.95	-.76	1.32	15.03	69.97	125
T. Lapointe	1	125.00	24.05	1.12	2.04	27.21	97.79	126
L. Miller	6	98.00	9.65	-.88	1.56	12.09	85.91	127
M. Warren	8	112.00	10.30	1.01	1.81	13.12	98.88	128
TOTALS		420.00	56.95	3.77	6.73	67.45	352.55	

Nov 18	Wages Expense		67 45	
" 18	UIC-CPP Expense		12 01	
" 18	Accounts Payable Control			79 46
	[Income Tax Payable	56.95]		
	UIC-CPP Employee	10.50		
	UIC-CPP Employer	12.01]		
Nov 25	Wages Expense		67 45	
" 25	UIC-CPP Expense		12 01	
" 25	Accounts Payable Control			79 46
	[Income Tax Payable	56.95]		
	UIC-CPP Employee	10.50		
	UIC-CPP Employer	12.01]		

CASH PAYMENTS JOURNAL

DATE		DESCRIPTION	ACC/PAY DR	OWNER'S DRAWINGS DR	EXPENSES DR	MISC DR	CASH CR	BANK CR
1972								
Oct	7	Payroll			352 55			352 55
	14	Payroll			352 56			352 55
	21	Payroll			352 55			352 55
	28	Payroll			352 55			352 55
Nov	4	Payroll			352 55			352 54
	11	Payroll			352 55			352 55
	15	Receiver General # 115						
		Income Tax	284.75					
		UIC-CPP Employee	52 50					
		UIC-CPP Employer	60 04					397 29
	18	Payroll			352 55			352 55
	25	Payroll			352 55			352 55

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB27 RECORDING THE PAYROLL

EXERCISE FAB27-1

THE PAYROLL REGISTER

North Country Outfitters Ltd. had agreed to provide guides to an exploration crew going into the north. John Smith, the manager, had made arrangements with the exploration company to provide three guides and a cook for a period of eight weeks starting October 2, 1972. The men would be paid by North Country Outfitters Ltd. John would pay each man at the end of the week when the crew returned to the base camp.

The pay sheets for each of the four men are attached.

Also attached are the payroll registers for the weeks ending:

October 7
October 14
October 21
October 28
November 4
November 11.

Instructions

1. Prepare the payroll register for the weeks ending November 18 and November 25.

2. Post the entries for the remittance of income tax deductions and U.I.C. - C.P.P. contributions up to and including the week ending November 4.

FAB27

3. Post the Cash Payments Journal for all payments over the period October 2 to November 25, 1972, (use only information given), and make the Journal entries for the collection of income tax deductions and U.I.C. - C.P.P. contributions during the weeks ending November 18 and November 25.

FAB27

NAME John GoodLad
ADDRESS middle RApids

AGE 21
MALE OR FEMALE mAle
MARRIED OR SINGLE Single

SOCIAL INSURANCE NUMBER 665-781-570

DATE COMMENCED WORK Oct. 2 19 72
DATE TERMINATED 19
DATE LAST HOLIDAY 19

TAX DEDUCTIONS
TOTAL EXEMPTIONS $ 1500
COLUMN NUMBER 1

1972	TIME																				EARNINGS			DEDUCTIONS						AMOUNT PAID	EMPLOYEE'S SIGNATURE
	1 16	2 17	3 18	4 19	5 20	6 21	7 22	8 23	9 24	10 25	11 26	12 27	13 28	14 29	15 30	31					REGULAR	OVERTIME	TOTAL	UNEMP. INS.	C.P.P. AMOUNT	C.P.P. TO DATE	INCOME TAX		TOTAL		
Oct. 7		✓	✓	✓	✓	✓	✓	—															85 00	- 76	1 32	1 32	12 95		15 03	69 97	John Goodlad
" 14									✓	✓	✓	✓	✓	✓	—								85 00	- 76	1 32	2 64	12 95		15 03	69 97	John Goodlad
" 21	✓	✓	✓	✓	✓	✓																	85 00	- 76	1 32	3 96	12 95		15 03	69 97	John Goodlad
" 28							—	✓	✓	✓	✓	✓	✓										85 00	- 76	1 32	5 28	12 95		15 03	69 97	John Goodlad
Nov 4	✓	✓	✓	✓										—	✓	✓							85 00	- 76	1 32	6 60	12 95		15 03	69 97	John Goodlad
" 11					—	✓	✓	✓	✓	✓	✓												85 00	- 76	1 32	7 92	12 95		15 03	69 97	John Goodlad
" 18	✓	✓	✓									—	✓	✓	✓								85 00	- 76	1 32	9 24	12 95		15 03	69 97	John Goodlad
" 25				—	✓	✓	✓	✓	✓	✓													85 00	- 76	1 32	10 56	12 95		15 03	69 97	John Goodlad

Time and Pay Roll Form S-202B

FAB27

Time and Pay Roll Form S-2028

NAME Terry Lapointe
ADDRESS Middle Rapids

23
male
Single

661-371-301

Oct. 2 19 72
19
19

TAX DEDUCTIONS
1500
1

1972	TIME																				EARNINGS			DEDUCTIONS						AMOUNT PAID	EMPLOYEE'S SIGNATURE
	1 16	2 17	3 18	4 19	5 20	6 21	7 22	8 23	9 24	10 25	11 26	12 27	13 28	14 29	15 30	 31							TOTAL						TOTAL		
Oct. 7		✓	✓	✓	✓	✓	✓																125 00	1 12	2 04	2 04	24 05		27 21	97 79	Terry Lapointe
" 14								—	✓	✓	✓	✓	✓	✓									125 00	1 12	2 04	4 08	24 05		27 21	97 79	Terry Lapointe
" 21	✓	✓	✓	✓	✓	✓																	125 00	1 12	2 04	6 12	24 05		27 21	97 79	Terry Lapointe
" 28							—	✓	✓	✓	✓	✓	✓	—									125 00	1 12	2 04	8 16	24 05		27 21	97 79	Terry Lapointe
Nov 4	✓	✓	✓	✓											✓	✓							125 00	1 12	2 04	10 20	24 05		27 21	97 79	Terry Lapointe
" 11					—	✓	✓	✓	✓	✓	✓												125 00	1 12	2 04	12 24	24 05		27 21	97 79	Terry Lapointe
" 18	✓	✓	✓									—	✓	✓	✓								125 00	1 12	2 04	14 28	24 05		27 21	97 79	Terry Lapointe
" 25				—	✓	✓	✓	✓	✓	✓													185 00	1 12	2 04	16 32	24 05		27 21	97 79	Terry Lapointe

NAME Leonard Miller
ADDRESS Middle Rapids

Age 22
Male or Female male
Married or Single MARRied
Received Unemployment Insurance Book

Social Insurance Number 666-001-309

Date Commenced Work Oct. 2 19 72
Date Terminated 19
Date Last Holiday 19

TAX DEDUCTIONS
Total Exemptions $ 2850
Column Number 6

1972	TIME																[illegible]	Rate	[illegible]	Rate	EARNINGS			DEDUCTIONS						Amount Paid	Employee's Signature
	1 16	2 17	3 18	4 19	5 20	6 21	7 22	8 23	9 24	10 25	11 26	12 27	13 28	14 29	15 30	 31					Regular	Overtime	Total	Unemp. Ins.	C.P.P. Deduct	C.P.P. To Date	Income Tax		Total		
Oct 7		✓	–	✓	✓	✓	✓																98 00	– 88	1 56	1 56	9 65		12 09	85 91	Len Miller
" 14								–	✓	✓	✓	✓	✓	✓	–								98 00	– 88	1 56	3 12	9 65		12 09	85 91	Len Miller
" 21	✓	✓	✓	✓	✓	✓																	98 00	– 88	1 56	4 68	9 65		12 09	85 91	Len Miller
" 28							–	✓	✓	✓	✓	✓	✓	–									98 00	– 88	1 56	6 24	9 65		12 09	85 91	Len Miller
Nov 4	✓	✓	✓	✓											✓	✓							98 00	– 88	1 56	7 80	9 65		12 09	85 91	Len Miller
" 11					–	✓	✓	✓	✓	✓	✓												98 00	– 88	1 56	9 36	9 65		12 09	85 91	Len Miller
" 18	✓	✓	✓									–	✓	✓	✓								98 00	– 88	1 56	10 92	9 65		12 09	85 91	Len Miller
" 25				–	✓	✓	✓	✓	✓	✓													98 00	– 88	1 56	12 48	9 65		12 09	85 91	Len Miller

Time and Pay Roll Form S-202R

FAB27

Time and Pay Roll Form S-202R

NAME Malcolm Warren

ADDRESS Middle Rapids

AGE 34
MALE OR FEMALE male
MARRIED OR SINGLE MARRIED

SOCIAL INSURANCE NUMBER 665-506-651

DATE COMMENCED WORK Oct 2 19 72
DATE TERMINATED 19
DATE LAST HOLIDAY 19

TAX DEDUCTIONS
TOTAL EXEMPTIONS $ 3400.
COLUMN NUMBER 8

1972	1 / 16	2 / 17	3 / 18	4 / 19	5 / 20	6 / 21	7 / 22	8 / 23	9 / 24	10 / 25	11 / 26	12 / 27	13 / 28	14 / 29	15 / 30	31
Oct. 7		✓	✓	✓	✓	✓	✓									
" 14								—	✓	✓	✓	✓	✓	✓	—	
" 21	✓	✓	✓	✓	✓	✓										
" 28							—	✓	✓	✓	✓	✓	✓			
Nov 4	✓	✓	✓	✓										—	✓	✓
" 11					—	✓	✓	✓	✓	✓	✓					
" 18	✓	✓	✓									—	✓	✓	✓	
" 25				—	✓	✓	✓	✓	✓	✓						

1972	EARNINGS REGULAR	EARNINGS OVERTIME	EARNINGS TOTAL	DEDUCTIONS UNEMP. INS.	DEDUCTIONS C.P.P. DEDUCT	DEDUCTIONS C.P.P. TO DATE	DEDUCTIONS INCOME TAX		DEDUCTIONS TOTAL	AMOUNT PAID	EMPLOYEE'S SIGNATURE
Oct. 7			112 00	1 01	1 81	1 81	10 30		13 12	98 88	Malcolm Warren
" 14			112 00	1 01	1 81	3 62	10 30		13 12	98 88	Malcolm Warren
" 21			112 00	1 01	1 81	5 43	10 30		13 12	98 88	Malcolm Warren
" 28			112 00	1 01	1 81	7 24	10 30		13 12	98 88	Malcolm Warren
Nov 4			112 00	1 01	1 81	9 05	10 30		13 12	98 88	Malcolm Warren
" 11			112 00	1 01	1 81	10 86	10 30		13 12	98 88	Malcolm Warren
" 18			112 00	1 01	1 81	12 67	10 30		13 12	98 88	Malcolm Warren
" 25			112 00	1 01	1 81	14 48	10 30		13 12	98 88	Malcolm Warren

FAB27

PAYROLL REGISTER

Pay Period Ending October 7/72

EMPLOYEE	EXEMPTION CATEGORY	TOTAL EARNINGS	INCOME TAX	UIC	CPP	TOTAL DEDUCTIONS	NET PAY	CHEQUE NO.
J. Goodlad	1	85.00	12.95	-.76	1.32	15.03	69.97	43
T. Lapointe	1	125.00	24.05	1.12	2.04	27.21	97.79	44
L. Miller	6	98.00	9.65	-.88	1.56	12.09	85.91	45
M. Warren	8	112.00	10.30	1.01	1.81	13.12	98.88	46
TOTALS		420.00	56.95	3.77	6.73	67.45	352.55	

PAYROLL REGISTER

Pay Period Ending October 14/72

EMPLOYEE	EXEMPTION CATEGORY	TOTAL EARNINGS	INCOME TAX	UIC	CPP	TOTAL DEDUCTIONS	NET PAY	CHEQUE NO.
J. Goodlad	1	85.00	12.95	-.76	1.32	15.03	69.97	51
T. Lapointe	1	125.00	24.05	1.12	2.04	27.21	97.79	52
L. Miller	6	98.00	9.65	-.88	1.56	12.09	85.91	53
M. Warren	8	112.00	10.30	1.01	1.81	13.12	98.88	54
TOTALS		420.00	56.95	3.77	6.73	67.45	352.55	

FAB27

PAYROLL REGISTER

Pay Period Ending October 21/72

EMPLOYEE	EXEMPTION CATEGORY	TOTAL EARNINGS	INCOME TAX	UIC	CPP	TOTAL DEDUCTIONS	NET PAY	CHEQUE NO.
J. Goodlad	1	85.00	12.95	-.76	1.32	15.03	69.97	61
T. Lapointe	1	125.00	24.05	1.12	2.04	27.21	97.79	62
L. Miller	6	98.00	9.65	-.88	1.56	12.09	85.91	63
M. Warren	8	112.00	10.30	1.01	1.81	13.12	98.88	64
TOTALS		420.00	56.95	3.77	6.73	67.45	352.55	

PAYROLL REGISTER

Pay Period Ending October 28/72

EMPLOYEE	EXEMPTION CATEGORY	TOTAL EARNINGS	INCOME TAX	UIC	CPP	TOTAL DEDUCTIONS	NET PAY	CHEQUE NO.
J. Goodlad	1	85.00	12.95	-.76	1.32	15.03	69.97	71
T. Lapointe	1	125.00	24.05	1.12	2.04	27.21	97.79	72
L. Miller	6	98.00	9.65	-.88	1.56	12.09	85.91	73
M. Warren	8	112.00	10.30	1.01	1.81	13.12	98.88	74
TOTALS		420.00	56.95	3.77	6.73	67.45	352.55	

FAB27

PAYROLL REGISTER

Pay Period Ending November 4/72

EMPLOYEE	EXEMPTION CATEGORY	TOTAL EARNINGS	INCOME TAX	UIC	CPP	TOTAL DEDUCTIONS	NET PAY	CHEQUE NO.
J. Goodlad	1	85.00	12.95	-.76	1.32	15.03	69.97	91
T. Lapointe	1	125.00	24.05	1.12	2.04	27.21	97.79	92
L. Miller	6	98.00	9.65	-.88	1.56	12.09	85.91	93
M. Warren	8	112.00	10.30	1.01	1.81	13.12	98.88	94
TOTALS		420.00	56.95	3.77	6.73	67.45	352.55	

PAYROLL REGISTER

Pay Period Ending November 11/72

EMPLOYEE	EXEMPTION CATEGORY	TOTAL EARNINGS	INCOME TAX	UIC	CPP	TOTAL DEDUCTIONS	NET PAY	CHEQUE NO.
J. Goodlad	1	85.00	12.95	-.76	1.32	15.03	69.97	103
T. Lapointe	1	125.00	24.05	1.12	2.04	27.21	97.79	104
L. Miller	6	98.00	9.65	-.88	1.56	12.09	85.91	105
M. Warren	8	112.00	10.30	1.01	1.81	13.12	98.88	106
TOTALS		420.00	56.95	3.77	6.73	67.45	352.55	

SUBJECT PERSONNEL MANAGEMENT

LESSON PM17 LABOUR LEGISLATION

INSTRUCTOR'S GUIDE

OVERVIEW

As future managers, the students will need to be familiar with the labour legislation for their province or territory. Specific information can be obtained by writing to the Department of Labour at the addresses listed under Reference Material for Instructor.

It is suggested that each student be provided with any pamphlets which are available. The lesson should probably be conducted from these materials. It will be necessary for the instructor to go through the material to determine what he wants the students to learn. There will be more detail than it is possible to give in one lesson.

OBJECTIVE

The students will be introduced to provincial labour legislation; they will be aware of where they can get additional information when starting their businesses.

REFERENCE MATERIAL FOR INSTRUCTOR

1. Archer, Maurice. An Introduction to Canadian Business. Toronto: McGraw-Hill Company of Canada Limited, 1967. pp. 117 - 123.
2. Provincial Labour Standards, Department of Labour, Ottawa.
3. Labour legislation and regulations for the provinces:

a. Department of Labour, St. John's, Newfoundland.

b. Labour Branch, Department of Labour, Industry and Commerce, P.O. Box 2000, Charlottetown, Prince Edward Island.

c. Department of Labour, P.O. Box 697, Halifax, Nova Scotia.

d. Department of Labour, Fredericton, New Brunswick.

e. Ministere du Travail et de la Main d'Oeuvre, Quebec, Quebec.

f. Ontario Department of Labour, Information Service, 400 University Avenue, Toronto 100, Ontario.

g. Manitoba Department of Labour, 600 Norquay Building, Winnipeg, Manitoba.

h. Director, Labour Standards, Saskatchewan Department of Labour, Regina, Saskatchewan.

i. Board of Industrial Relations, Government of Alberta, Edmonton 6, Alberta.

j. Department of Labour, Government of the Province of British Columbia, Victoria, British Columbia.

RESOURCES REQUIRED

1. Booklets and pamplets summarizing labour legislation and regulation for the provinces. Provide enough copies for each student.
2. Resource person from the Department of Labour to answer questions after students have covered lesson material. (Optional)

METHODOLOGY

1. Do not hand out Readings immediately.

OBJECTIVE: THE STUDENTS WILL BE INTRODUCED TO PROVINCIAL LABOUR LEGISLATION; THEY WILL BE AWARE OF WHERE THEY CAN GET ADDITIONAL INFORMATION WHEN STARTING THEIR BUSINESSES.

Stimulus

2. Ask students:

   a. What is the minimum wage in the province?
   b. Who sets the minimum wage?
   c. What is minimum working age?
   d. What are the limited working hours?
   e. Is there legislation which attempts to prevent discrimination in hiring employees?

   Discuss these questions to determine the students' level of knowledge on labour regulations.

Clarify Problem

3. Pass out Readings, and read Purpose, Introduction and Section 1.

PURPOSE

Each province has laws which govern various aspects of employer-employee relations. In this lesson you will discuss labour legislation in a general way, and the labour legislation of your province more specifically.

INTRODUCTION

There are both provincial and federal laws governing labour. Federal labour legislation affects only those employees under its jurisdiction; employees who work in navigation, shipping, railways, canals, telegraphs, steamship lines, ferries, airports, air transportation, radio stations and various other works or projects financed by the federal government.

The rest of the labour force comes under provincial legislation. Since the businesses you will be involved with will not likely come under federal legislation, this lesson will deal only with provincial legislation. You will want to consider specifically the legislation which concerns your province.

CONTENT

1. Types of Legislation

The following are the most common types of labour legislation enacted by the provinces.

a. minimum wage
b. minimum age
c. limited working hours
d. annual vacation with pay
e. fair employment practices
f. equal pay
g. apprenticeship
h. workmen's compensation
i. public holidays
j. weekly rest day
k. labour relations.

Further detail on each of these subjects may be obtained from brochures and pamphlets issued by the various provincial departments of labour.

Provide Information

4. Have students read each of the Sections 2 - 12. After each section, which comments in a general way on labour legislation common to most of Canada, have students study the specific legislation and regulations as the students deal with them. It may be better to deal with a summary of labour legislation and regulations if one is available rather than go through the detailed acts.

2. Minimum Wage

All provinces have laws which set minimum wages for work in the province. This is to prevent exploitation of employees by unscrupulous employers.

3. Minimum Age

Every province has a minimum age below which it is unlawful to hire a person. The age may depend on the type of employment.

4. Limited Working Hours

Most provinces set a maximum number of hours which can be worked on a daily and weekly basis. Some provinces specify that extra pay must be provided when an employee voluntarily works more hours.

5. Annual Vacation With Pay

Every province has legislation which makes paid vacations compulsory. The number of days may vary from province to province.

6. Fair Employment Practices

This legislation, in most provinces, attempts to prevent discrimination by employers and trade unions against new employees and members of various races, colours, nationalities or religions.

7. Equal Pay

Many provinces prohibit differences in pay between men and women doing the same job.

8. Apprenticeship

Some provinces require that workers in certain trades (plumbers, carpenters, etc.), go through a period of training before being allowed to offer their services as qualified craftsmen.

9. Workmen's Compensation

This legislation provides for a fund financed by employers to pay compensation to an employee injured or disabled on the job. There are provisions for medical and hospital expenses, cash payments for loss of wages, a life pension for permanent disability and monthly pension, funeral expenses and a lump sum for the widow if the employee dies as a result of injuries on the job.

10. Public Holidays

Some provinces provide for payment of salaries on certain public holidays even if the employee does not work. If the employee does work, he must receive overtime rates.

11. Weekly Rest Day

Most provinces require at least one rest day a week.

12. Labour Relations

All provinces have legislation to protect the rights of employees and employers. The legislation provides for bargaining in good faith and compulsory conciliation in case of deadlock.

5. Have the students discuss the implications of each section for the small businessman. Emphasize the need for the businessman to be aware of labour legislation.

6. Students should be given the address from which they can obtain copies of labour legislation and regulation for their province.

7. Read Section 13 of the Readings.

13. Summary

The above summary of labour legislation will give you an idea of what this legislation involves. You will want to contact your Provincial Department of Labour for the specific legislation which applies to your province. No one can remember all of the details of this legislation, so it is worthwhile having an up-to-date copy of all labour legislation in your province when you start business.

8. If you think it would be beneficial, ask a resource person from the Department of Labour to meet with students to answer questions. The resource person can be invited to meet with the group the following week.

Indicator

9. Group discussion.

SUBJECT MANAGEMENT PROCESS

LESSON MP12 ON-THE-JOB TRAINING

INSTRUCTOR'S GUIDE

OVERVIEW

This lesson is intended to give the students some practical, on-the-job experience for a period of one week. It will require considerable pre-planning and work, both by the instructor and the students, to arrange for co-operating businesses with which the students can spend a week.

It is important that the co-operating businessmen will also consider a one month job experience for the students after the course ends. Depending on circumstances, one or the other may not be possible. However, merchants who understand that there is a possibility that the students will help for one month at the end of the course, may be more interested in providing the week's experience now, since the training provided may return some help.

Students should realize that it is they who will gain the most from this arrangement. It costs a businessman money to train someone to do a job. It should be understood by the businessmen that the students get no salary or wage, since the intention is that they remain on training allowance.

The students can be involved in helping select co-operating businessmen who are in the type of business that interests them. These may be in the student's home community or in the community where the school is located. It is important that travelling be kept to a minimum.

It is not intended that students be involved in the finances of the business, unless the businessman himself wishes to involve the student in this aspect. Many businessmen will hesitate to provide this information and students should be aware of this.

It is desirable for the instructor to keep in touch with the students and co-operating businessmen during the on-the-job training. There is a real public relations job to be done to encourage continued co-operation with businessmen. The student may also require some help in adjusting to the new situation.

The instructor may find it impossible to arrange on-the-job training in his area; he can then substitute a few days of observation of business by students. The businesses observed should also be contacted in advance. The students should receive the same preparation as to what to look for in the business and what public relations are required in dealing with the businesses observed.

Whether the instructor chooses observation or on-the-job training, he should adjust the timing of this lesson to meet the particular needs of his class. Ideally, the training experience should be conducted between lesson 100 and lesson 110.

OBJECTIVE

To provide students with on-the-job training for a period of one week.

RESOURCES REQUIRED

1. Flip chart.

METHOLOGY

1. Hand out the Guidelines, and read the Purpose and Introduction.

PURPOSE

The purpose of this lesson is to provide you with guidelines for on-the-job training.

INTRODUCTION

You have completed approximately two-thirds of the course material. You have had an opportunity to work on two projects which should have been learning experiences. This lesson will prepare you for on-the-job training in a business where you can observe how business is conducted for a period of one week. This learning experience should be very valuable to you. On your return to the course at the end of the week you should be in a good position to discuss your experiences and to apply some of the learning to previous lessons as well as to future lessons.

Stimulus

2. Ask the students: "How important is experience in preparing for a future in the business world?"

Clarify Problem

3. Discuss this question with the students, listing reasons for and against acquiring experience prior to managing a business.

4. Ask the students to list on a flip chart what they would expect to look for if they were to spend some time working in a business.

Provide Information

5. Read sections 1 and 2 of the Guidelines.

CONTENT

1. Objective of the On-the-Job Experience

The objective of the on-the-job training experience is to provide you with an opportunity to observe real businesses at work, and be involved in the actual operation of the business, doing the jobs assigned by the manager. You will hopefully have an opportunity to talk to the manager about his operation and learn a good deal about how he runs his business. This will help you see practical aspects of the course material, as well as determine how you might handle particular situations. Experience is valuable because it helps you avoid making serious mistakes.

2. Pointers On What to Look For

There are many things to look for in a business. Each manager has his own way of managing his business. Some managers will follow the methods outlined in the course very closely, others will differ greatly. Make your own list of things you want to learn.

The following are a few of the aspects you may wish to observe:

Management Process
Personnel
Marketing
Office Procedures
Production

The notes made after each of the following are only general guides. You will want to make them more specific for your interest and the business in which you will work.

a. Management Process

Observe the planning, organizing and directing functions in the business.

(1) Who does the planning, when is it done, how is it done?
(2) How would you draw the organizational chart of the business? Does it follow the principles you studied?
(3) How is the business directed?
(4) Does one person or do many persons direct the business?
(5) What relationship exists between employees and bosses?

b. Personnel

(1) How many employees are there?
(2) How is the morale in the business?
(3) How are employees recruited, selected, trained?
(4) Is there good communication with employees?
(5) How does the manager discipline employees?

c. Marketing

Observe selling techniques, merchandise layout and display.

(1) Does the business have a good market potential?
(2) Is it providing the product or service needed by the customers?
(3) How does the manager deal with wholesalers?
(4) Does he have a good relationship with them?
(5) Who does the purchasing for the business?
(6) How does he know what and when to purchase?

(7) Where does the business keep its stock?
(8) Is it handy, dry, and clean?
(9) If the business needs to change prices, how does it arrive at new prices?
(10) Does the business use advertising?
(11) Is the manager involved in community activities?
(12) How are good public relations maintained?

d. Office Procedure
Observe the business office procedures, do they appear to facilitate the work?

e. Production
If you go to a business which is involved in production, observe techniques of quality control, plant layout and work simplification, ease of handling materials, maintenance of equipment.

Compare the suggestions in the Guidelines to those suggested by the students. Can the students now suggest others?

6. Read Section 3 of the Guidelines.

3. Your Public Relations

The businessman who takes you for on-the-job training is doing you a favour providing you with an opportunity to get some experience. Although you will be doing some work for him, you are the one who stands to gain the most.

It is important to remember that you are on-the-job training to observe and learn what the businessman is doing and NOT TO TELL HIM HOW TO DO HIS WORK. It is annoying to a businessman to be told how to run his business. Remember that you are representing your school and that the impression you leave with the businessman may be a lasting one. You should try to sell your desire to learn rather than what you know.

It must be remembered that there are many ways to run a business. Your course will help you learn quickly, but remember that the methods discussed in this course are not the only ones.

Each student will have a different experience. When you return to the class for an evaluation of your on-the-job training, it will be valuable to compare your different experiences.

7. Discuss. It is important for the students to realize that their behaviour with the businessmen can affect the school's reputation and the future success of other small business management students wishing to co-operate with businessmen.

   The students should show a keen desire to learn from the businessmen, without attempting to show off what they know. Often students learning course material in a new field tend to be dogmatic. Many businessmen may not wish to have principles or theories preached to them. It is suggested the students discuss together this point to determine what their expectations and those of the businessmen might be. They will require a great deal of flexibility in adjusting to the situation they will face.

8. Read Section 4 of the Guidelines.

4. Summary

The on-the-job training is an opportunity to observe businessmen conducting their businesses and to learn from this experience.

SUBJECT MARKETING

LESSON MKT13 ANALYZING YOUR MARKET

INSTRUCTOR'S GUIDE

OVERVIEW

One of the more difficult tasks facing the students in planning their businesses is the forecasting of sales. It is not a precise science, yet it is an essential step in preparing projected financial statements for a lending agency.

In this last lesson in the Marketing subject area it is important to emphasize the fact that all the work which goes into planning a business may be of little use unless the prospective businessman is sure there is a market. This lesson therefore deals with how to forecast sales and estimate market share.

The instructor should show the need for forecasting of sales in order to complete the projected statements dealt with in lesson FAB42, "Projected Financial Statements".

Students should also realize that the forecasting procedures should be used after the business has been in operation for a time to see if it is gaining or losing ground as compared to the total market.

OBJECTIVE

The students will know the procedures used to forecast sales and determine the market share for a business.

MKT13

REFERENCE MATERIAL FOR INSTRUCTOR

1. Cornwell, Arthur. Sales Potential and Market Shares. Leaflet #112, Small Marketers Aids. Washington: Small Business Administration, 1968.

2. Anthony, L. Edward. "Appraising the Market for the Services You Offer". Small Marketers Aids, Annual No. 2. Washington: Small Business Administration, 1960.

RESOURCES REQUIRED

1. Flip chart

2. Resource person experienced in sales forecasting, market survey and analysis. Such a person will likely be associated with a lending institution.

METHODOLOGY

1. Hand out the Readings, and read the Purpose and Introduction.

PURPOSE

In this lesson you will again look at the important topic of forecasting sales and estimating your share of the market.

INTRODUCTION

This is the last lesson of the Marketing subject area. You have learned that marketing is all the processes that concern the flow of goods and services from the producer to the consumer.

In lesson MKT3, you studied the topic, "Sizing Up a Market Opportunity". Now that we have looked at the other lessons in this subject, it is important to come back to this topic.

You may still be wondering, "Why should I worry about how big my market will be?" or "Why should I try to estimate how big my sales will be?" Or you may think, "It's too hard to predict things in advance. Once I've run my business for a year or two, I'll have a better idea of how much I can sell. I'll know what my share of sales should be."

It is indeed hard to forecast what your sales will be, but, if you don't try, your business may not last for a year or two.

If you just start up a business hoping that you will sell enough to make a profit, you may be disappointed. The market may be too small. You may have too few customers.

In order to be able to prepare the projections and estimated revenue, expenses and profit which a lending agency will want before a loan is granted, you will need to estimate a forecast of sales.

So, you have to analyze your market before you start your business. You have to estimate what your share of the market will be. Also, when your business is running, you will want to continue to see if you are getting your share of the market. You will have to continue to forecast your sales.

OBJECTIVE: THE STUDENTS WILL KNOW THE PROCEDURES USED TO FORECAST SALES AND DETERMINE MARKET SHARE FOR A BUSINESS.

Stimulus

2. Ask: "If you are planning to start your own business, how will you know if there will be sufficient business (a large enough market) for your business to succeed?"

   Have students brainstorm ideas and list them on a flip chart.

Clarify Problem

3. Have students discuss each of the suggestions and explain how and from where the information might be obtained.

Provide Information

4. Read Sections 1 to 5 of the Readings, stopping to discuss and clarify as needed.

CONTENT

1. What Have You Learned So Far?

In lesson MKT3, "Sizing Up a Market Opportunity", you discussed five steps you could use to size up the market opportunity for the business you may want to start. These five steps were:

STEP 1. Decide on the type of business

STEP 2. Choose a location

STEP 3. Forecast your sales

STEP 4. Estimate your costs

STEP 5. Calculate your profits.

In this lesson you will take a close look at step 3.

Let's assume that you already have decided on the type of business you want to start and the location where you will start (or that you have already been running your business for awhile).

How will you forecast your sales?

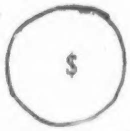
How will you figure out what share of the market you should get? These questions should be decided before you start your business and at certain times (once every year) after your business is operating.

2. The Meaning of Sales Forecast and Market Share

a. Sales forecasting means estimating what your sales will be in the future (week, month, year, etc.). Your sales are measured in dollars.

b. Market share means the per cent of the total market that you get. When you decide how much of the total market you sell (or expect to sell), you are finding your market share. Market share is measured in per cent.

Total actual or estimated market in dollars (or total sales volume of the same type of products in your market area)

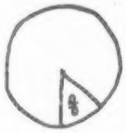


(the total pie)

Your actual sales or your forecasted sales in dollars

(your slice of the pie)

Your actual or forecasted market share



For example:

$$\text{Market share \%} = \frac{\text{Sales}}{\text{Total Market}}$$

Example: $\frac{\$\ 25,000}{\$100,000}$ = 25% market share

$\frac{\$\ 30,000}{\$100,000}$ = 30% market share

$\frac{\$\ \ 6,000}{\$\ 60,000}$ = 10% market share

$\frac{\$\ 35,750}{\$\ 35,750}$ = 100% market share

3. The Importance of Forecasting Sales and Finding Market Share

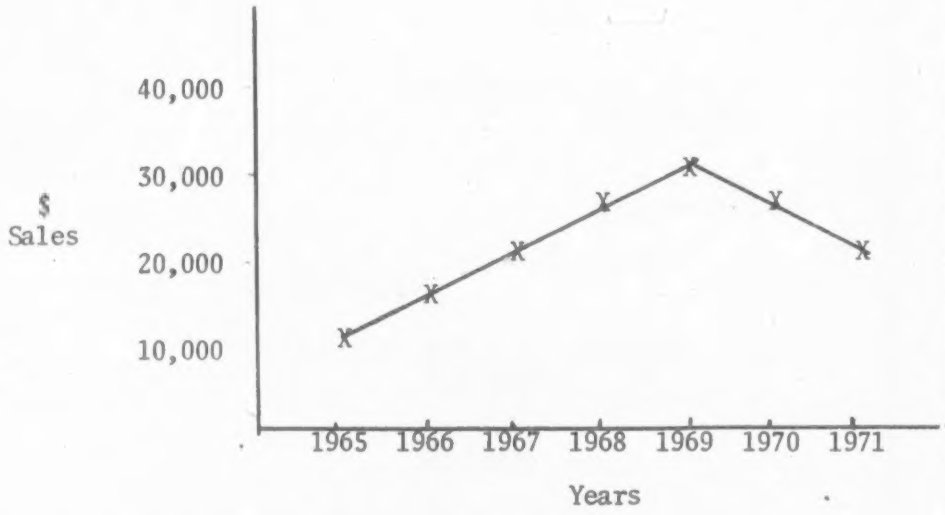
If you know what your sales will be before you start a business, you will know whether or not the business will be profitable.

If you know what your share of market is, you will know whether or not your business is progressing or falling behind.

Examples

a. Bill Lunsford planned to start a retail business in his home town. After some study, he figured his sales would be $30,000.00 in the first year and would slowly climb to about $50,000.00 per year after five years. These sales forecasts were good enough for Bill to decide to go ahead and start the business. He figured he'd have enough sales to make $3,000.00 or $4,000.00 profit each year.

b. John Bolt's small store was in trouble. After five years of steady growth his sales had levelled off as shown in the diagram below



John thought he was getting all the sales he could expect in this location. His family was bigger now and he felt he had to increase his sales (and profits) each year so he could feed and educate his kids.

However, John was wrong. His present location was a good one. The population of the area had been increasing at a rate of 10% per year lately and it looked like this rate of increase would continue.

John's problem was that he wasn't getting his share of the market. His business was falling behind. He didn't realize that the sales potential of the market in his area was increasing. He would have continued to get an increase of sales each year if he had kept his share of the market.

4. Steps in Estimating Your Sales (or Your Market Share)

Your job is to find out what size slice of the total market pie you will be able to get. If you have no competition, you may get 100% of the sales potential in your area.

The steps in estimating your market share are:

STEP 1. Describe your market area
STEP 2. Estimate total sales
STEP 3. Estimate your share of sales (market share)

a. Step 1: Describe Your Market Area

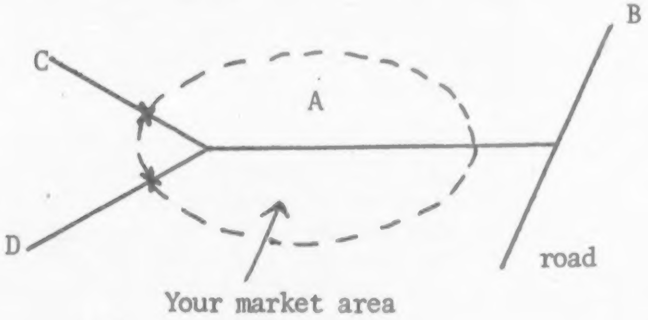
This is the starting point in estimating your market share. Market area means the area from which you draw your business or the geographical area within which you do business. It may be one province, one town, one community or a part of a community.

What things should you consider in describing your market area?

(1) Distance is one way of describing your market area. You could calculate how long it would take a customer to walk or drive to your business. You would then have to take into account where your competitors are located.

People will normally go to the place they can get to the easiest. With this in mind, you can study the area around your business and draw a rough sketch of your market area.

For example, if you are business A and you have three competitors B, C and D who sell the same type of products as you do, your market area might look like this:



The broken line shows you the area from which you can expect to draw a big part of your business. You could count the number of people or families in this area. You will get some business from outside this area but not too much, as the customers will be closer to your competitors B, C and D. The "x's" are points on the road half way between your location and those of your competitors.

Distance is only one factor in describing your market area. Your business (A) might be able to attract customers who lived near the other businesses B, C and D with better quality products, better prices, better service or better promotion.

So, you might get, say, 90% of the customers from inside the main market area shown in the diagram and you might get 10% of the customers from outside this main area.

(2) Interviewing some people in the area around your business is another way to find out what your market area looks like. You would be able to find out where the people shop and how much they buy from the other businesses. Then you could estimate how many customers you would have from each part of the market area.

You can describe your market area in terms of the number of customers you can expect to get from each area around your business.

b. Step 2: Estimate Total Sales
After you have a description of your market area, the next job is to get figures on the total sales of your type of products in this market area. This will be the total sales of all businesses of your type in the area. You can get this information from:

(1) Sales data. You may be able to find out how much all the customers in your market area spent on the type of products you sell. For example, you could add up the sales for all your competitors. Maybe you can get the total sales figures from some local government agency or business organization. If you are purchasing an existing business, you may have an easier job of forecasting sales but you will still want to keep in mind a possible increase or decrease in sales due to a change in management.

For example, if you plan to start a grocery store you might find that competitor B sells $40,000.00 worth of groceries a year, competitor C sells $20,000.00 and competitor D sells $25,000.00. This gives a total grocery sale of $85,000.00 per year.

(2) Population data. You might find out or estimate how much each person or family spends on your type of products. Then you could multiply this figure times the number of people or families in the area.

For example, if there were 1,000 people (or 300 families) in the area served by business B, C and D, and you estimated that the average family spends $300.00 per year on your type of product, then the total sales would be:

300 (families) x $300.00 = $90,000.00 per year

If you started up your business (A) then you would have to share this $90,000.00 with businesses B, C and D.

(3) Income data. You might be able to find out (or estimate) what per cent of an average family's (or person's) income is spent on your type of product. Let's assume it is 20%.

Now, if you know the total income of the area you could figure out what total sales would be.

For example, if total income in the area is $400,000.00 per year:

Total sales = $400,000.00 x 20%
= $ 80,000.00 per year

You can estimate total sales for your type of products by finding actual sales data or making an estimate based on the population or income.

c. Step 3: Estimate Your Share of Sales (Market Share)
Once you know the total sales of your kind of goods, you are ready to estimate what your share is.

(1) If you are already running your business and know how much you sold in the last time period, you can calculate your market share like this:

$$\text{Market share} = \frac{\text{your actual sales}}{\text{actual total sales}} \times 100\%$$

When you are running your business it will be important to keep an eye on your share of sales each month or year.

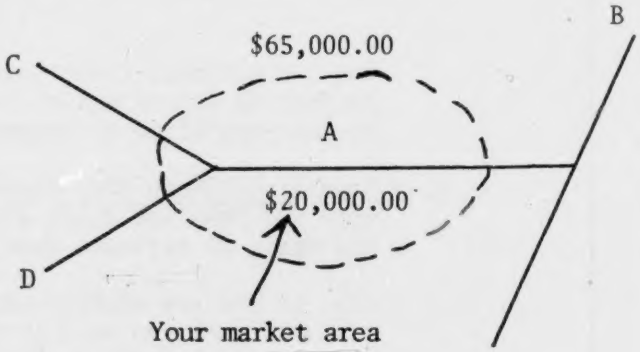
This way you will know whether or not you are getting your fair share of total sales.

(2) However, if you are just starting your business you don't know what your actual sales will be. Therefore, you have to estimate your market share.

(a) Base your estimate on the number of competitors. For example, if there are three other businesses of the same type for you to compete with you might be able to get 1/4 or 25% of the total sales. (But probably not in the first year). Remember some competitors may have a much larger percentage of the market than others.

If you knew total sales were $100,000.00 per year, you could expect 25% x $100,000.00 = $25,000.00 sales per year. This would be your sales forecast.

(b) Base your estimate on information about your market area. Look back to the sketch of your market area in Step 1, above. If your competitors were businesses B, C and D and their total sales were $85,000.00 per year, and if you found out that $20,000.00 of these sales came from the area of the broken circle near where you were going to locate your business, then you could calculate the size of your sales as follows:



Total sales of B, C and D = $85,000.00 per year.

Assume you get 90% of the business from your main market area and 10% from outside the main area.

Then, your share of sales

= 90% x $20,000.00 + 10% x $65,000.00
= $18,000.00 + $6,500.00
= $24,500.00 per year

This $24,500.00 is your sales forecast for one year. This gives you an average market share of:

$\frac{\$24,500.00}{\$85,000.00}$ = about 28.8% of the total market

5. Summary

To forecast your sales and market share, you first have to describe your market area and estimate the total sales for your type of product in the market area. Then you can estimate what share you are likely to get from this total volume of sales.

5. Refer back to the suggestions of the students as to where help and information might be obtained in forecasting sales. Discuss with students the following sources of information and help:

   a. Lending agencies. These sometimes have specialized staff or have access to information which is very helpful.

   b. Provincial government departments, such as Industry and Commerce, etc.

   c. Federal government departments of Industry, Trade and Commerce; Regional Economic Expansion; Indian Affairs and Northern Development; etc.

   d. Local industrial commissions, Chambers of Commerce, Boards of Trade.

   e. Wholesalers

   f. Management consultants.

Lending agencies may suggest other sources of help. They are interested in protecting their loans and will provide all the assistance they can in helping make sure there is a good sales potential.

6. The lesson will be much more practical and useful if you can provide the students with actual situations in market analysis. Bring in a resource person from a lending institution who is involved in sales forecasting and market analysis. Have a discussion of the various approaches to be taken in forecasting sales.

Indicator

7. Have students write up the steps and procedures they would follow in analyzing the market for the business they intend to start or for a hypothetical business.

SUBJECT PRODUCTION MANAGEMENT

LESSON PROD9 PLANNING AND SCHEDULING PRODUCTION

INSTRUCTOR'S GUIDE

OVERVIEW

Some small manufacturers take production schedules for granted because bottlenecks are few and far between. Minor problems are easily ironed out, and orders are delivered to customers on time.

Other small manufacturers are not as fortunate. Scheduling in their plants is complicated by the nature of the process, the complexity of the products, and frequent changes in quantity requirements.

Scheduling production in a small plant is easy to understand. Often the scheduler can stand at one end of the plant and see each machine through which the raw materials must go in order to make the products. Even so, scheduling production effectively is often easier said than done. Many things can, and frequently do, go wrong during the time needed to turn raw materials into products.

In this lesson the student is shown many of the factors that must be considered in the planning of a production process and the setting up of a production schedule.

Some of the factors to be considered when planning production are:

1. demand for the product
2. fluctuation of demand
3. production for orders and production for inventory
4. routing.

Some of the factors to be considered when scheduling production are:

1. availability of raw material
2. availability of machinery
3. workers required
4. dispatching
5. follow-up and corrective action.

After considering the factors involved in planning and scheduling production, the student is made aware of the results of poor planning and scheduling. Some of these results are:

1. customers having to wait for orders to be filled
2. additional workers needed on a part-time basis to meet demands
3. non-availability of materials or machines at some point in the process
4. breakdown of machines because maintenance schedule not being followed
5. over or under-sized inventories because of failure to anticipate fluctuations in the demand cycle.

In order that the student become aware of the practical implications of poor planning and scheduling, the instructor should attempt to arrange a tour of a local production operation. The students would then be able to ask the manager questions about the necessity of planning and scheduling production. They would also be able to gather information about the areas covered by the previous Production Management lessons.

OBJECTIVE

The student will become familiar with and be able to discuss the steps necessary for planning and controlling production.

REFERENCE MATERIAL FOR INSTRUCTOR

1. Garrett, Leonard J. and Silver, Milton. Production Management Analysis. New York: Harcourt, Brace and World Inc., 1966, ch. 17.

2. Owens, Richard N. Management of Industrial Enterprise. 6th ed. Homewood, Illinois: Richard D. Irwin, Inc., 1969, chs. 28 - 30.

RESOURCES REQUIRED

1. Arranged tour of a local production operation

2. Films: "Production Control Part I"
   "Production Control Part II"

3. Scheduling Checklist

METHODOLOGY

1. Hand out the Readings, and read the Purpose and Introduction.

PURPOSE

In this lesson you will look at two important stages that must be considered in planning and scheduling production. These are:

1. The total amount of each product to be produced over a given period of time (a month, three months, etc.); and

2. The planning and controlling of the actual production process as it progresses from day to day, week to week and month to month.

INTRODUCTION

An estimate or forecast of the total amount of each product is necessary so that plans may be made for buying raw materials, hiring and training workers, financing the program, and making other general plans.

Planning and scheduling of the actual production process helps to ensure that customer orders will be met on time, and that an orderly build-up of inventory can take place. It is at this stage that such things as size, colour, number of units, and operations at each work place or machine are determined.

The two major stages in the production process become particularly important when materials are purchased and sales are made outside of the local trading area.

Stimulus

2. Ask: "If you produce any kind of product or products, there are a number of important things you must know. Where do you start planning your production?"

Clarify Problem

3. List students' answers on the flip chart. Ask students to arrange answers into the order in which the tasks would be performed.

- The instructor should draw the students' attention to the fact that two major factors the producer must first find information on are:

a. the demand volume for his product.
b. the demand stability of his product.

Only when these factors are known can plans be formulated successfully. Discuss the factors with the students.

Provide Information

4. Read and discuss Section 1 of the Readings.

CONTENT

1. Scheduling Production with Demand

Demand for the product is the first factor which must be considered when scheduling production.

You will want to know whether or not the demand is sufficient to make it worthwhile for you to produce the product. Then you will want to know whether or not production output will remain stable from month to month, or if it will increase or decrease with changes in the amount of sales.

Even if sales do fluctuate (increase and decrease) from month to month, it may still be possible to stabilize production output. This can be done by building up inventory of finished products when sales decrease and taking products out of inventory when sales increase. For example, consider the following situation which indicates that production output can be stabilized, even though sales fluctuate.

Monthly production = 10 canoes
Total yearly production = 120 canoes

	Production In Units	Sales In Units	Inventory of Finished Products
Inventory on Jan. 1.			15
January	10	6	19
February	10	8	21
March	10	7	24
April	10	11	23
May	10	12	21
June	10	15	16

July	10	17	9
August	10	13	6
September	10	11	5
October	10	7	8
November	10	5	13
December	10	3	20

If production output can be stabilized, your business will benefit in many ways. For example:

a. You will not have to hire and train workers when demand for your product increases and then lay them off when demand decreases.

b. Machines and equipment will be used to a greater extent -- which means that you will be getting a better return on the money you have invested.

c. You will not have to keep as much of your finished product in inventory (that is, stored up to meet sudden increases in sales demand) if production is stable. This means less storage space is required and less money will be tied up in inventory.

d. Perhaps the raw materials you use are perishable. This can cause serious problems if sales demand fluctuates.

e. Perhaps the finished product that you make is perishable. This means that you must have steady markets or you will have to produce only as you receive orders. Producing only when you receive orders means the customer will have to wait longer.

For these reasons (and others you will be able to think of) knowledge of the demand for your product is a very important starting point in production planning and scheduling.

5. Ask: "After determining if your production output can be stabilized or if it is going to fluctuate, what are the next steps you have to take?"

Answer: The next step is planning the production process, then scheduling the process.

6. Read and discuss Section 2 of the Readings.

2. Steps in Planning and Scheduling the Actual Production Process

In managing almost any production activity, there are at least three major steps that must be followed:

a. Planning what will be done
This step of production control consists of two parts:

b. (1) Routing: which means planning what operations or jobs will be done.

(2) Scheduling: Which means planning when an operation or job will be started and when it will be completed.

b. Putting the plans into action by doing the work or assigning it to other people

This step of production control is usually referred to as dispatching because it consists of issuing orders to persons who are to do the work.

c. Reviewing the work as it progresses to see if the job is getting done or if the plans have to be revised
The reviewing steps of production control are called follow-up and corrective action.

We will discuss each of these steps in more detail in the following sections.

7. Write the following headings on the flip chart.

a. Routing
b. Scheduling
c. Dispatching
d. Follow-up
e. Corrective action

In the discussion, have the students suggest some of the things that they think would be done at each of the above steps. List the answers on the flip chart under the appropriate heading.

8. Read Sections 3, 4, 5 and 6 of the Readings. These sections should be compared to the answers listed by the students on flip chart.

3. Routing

Routing indicates the materials and the processes required to make each item or to do each job until a finished product has been manufactured. Some of the steps that may be included are:

a. Listing all parts that are needed to make the product;

b. Listing the sequence or succession of steps that each product must go through on its way to being completed;

c. determining the materials necessary for each product and their amounts;

d. determining the jobs that must be done at each step of the way and the equipment necessary to do each job;

e. determining the amount of work that can be performed at each machine or done by each worker in a certain length of time. This will help determine whether the product will b be delayed at any point in the process because one job takes longer than the others.

4. Scheduling

Time is an important factor in the scheduling of work. If you want to develop and maintain good relations with customers, you must schedule the work to be done and then produce on schedule. For this reason, the following factors become important:

a. the dates when raw materials or purchased parts will be available - a margin of safety is usually advisable;

b. the number of workers required;

c. extra shifts - if necessary;

d. overtime - if necessary;

e. machine repairs and maintenance;

f. other similar work or considerations.

5. Dispatching

As soon as scheduling is completed, you must then see that work gets under way. The actual production of goods requires that a number of things be done. Either you have to do them or you have to assign them to someone else. For example, if materials are not on hand, they must be ordered -- in the necessary quantities. When they arrive, materials must be checked to ensure that you have received the quantity and quality desired.

Detailed instructions must be made up as to what work must be done at each machine or at each job in the production process. You must be sure that workers know exactly what they are supposed to do.

Workers must have tools and other equipment necessary to complete their jobs. Not only must you have the proper tools on hand, but you must also have some system of control -- to ensure that tools and equipment don't disappear or get lost. Losses are costly, and the tools are not available for other jobs when needed.

As you can see, dispatching requires that you either do the work yourself or you assign it to others to do. Since you will not be able to do all the work yourself, you will have to hire and train workers. While you will know what you want done, it will be your workers who will be doing most of the actual jobs. This can cause some problems.

6. Follow-up and Corrective Action

You must follow the progress of work in process to ensure that the schedule you set out is being followed. Many things can delay work in process. Included among these are:

a. lack of materials

b. machine breakdown

c. lack of workers

d. accidents

e. failure of workers to meet certain standards

f. machines that are in a poor state of repair resulting in poor quality work

g. poor quality raw materials.

Workers play an important part in getting the job done. If they are trained poorly, are careless and cause accidents, do not care about the quality of their work, etc., you will have problems in meeting production goals.

If you scheduled your production work properly, you will know how long it should take to complete one unit or batch of products. You will then know if production is on schedule or is falling behind schedule. If your schedule is not being met, remember that this will:

a. increase your costs -- because it is taking longer to produce each product;

b. make your customers wait for their orders.

Therefore, if you find that production is behind schedule, you must take corrective action immediately. You must seek out the cause of the delay and determine ways to correct the situation. Perhaps you will have to:

a. try to get your raw materials from a more reliable source;

b. purchase new machines or have the old ones completely repaired;

c. bring workers in from some other area if enough workers are not available locally;

d. emphasize safety in your plant to impress workers with the necessity of avoiding accidents;

e. revise your training program so that poor quality work is eliminated;

f. revise your production schedule -- perhaps you set it too high.

The important thing to realize is that if production falls behind schedule, corrective action must be taken to control costs and keep customers satisfied. If you don't control costs, they will eat into your margin of profit until there is nothing left. Without satisfied customers who are willing to purchase from you again and again, you may as well plan on getting out of production as soon as possible. At least this way you will avoid losing more and more money as time goes on.

9. Show the films, "Production Control Part I", and 'Production Control Part II". Remember to relate the films to manufacturing operations in small businesses.

Film Content and How to Use

a. Talks about concern for quantity in modern plants.

b. Today, management regulates (or controls) quantity through the techniques of production control.

c. Production control is defined as: "the techniques of getting the right amount of work done by the right machines operated by the right men in the right amount of time."

d. Production control is one phase of production planning.

e. Production planning correlates men, machines and materials to produce output.

f. Production control analyzes sales orders and issues production orders to co-ordinate production operations.

g. Production control requires information about:

(1) sales
(2) production capability
(3) engineering requirements

h. Four main steps in production control are:

(1) routing
(2) scheduling
(3) dispatching
(4) follow-up (and corrective action)

Film explains what each of the above four points are and what the important factors are in each.

Discuss and summarize the films, relating them to small production operations which students would be familiar with and likely to enter.

10. Hand out the scheduling checklist and discuss. This checklist can be used to evaluate the tour.

11. Read Section 7 of the Readings.

7. Summary

We have discussed a few of the factors that must be considered when planning and scheduling production.

It is one thing to know what you want done, how you want it done and the length of time it should take to do it. It is another thing entirely to actually get it done according to plans.

One of the most important things in the operation of any type of business is to plan what must be done and then actually do it in the most efficient way possible. Many people have all kinds of plans, but they never carry any of them out. If you want to be a successful businessman, you must be both a planner and a doer.

Indicator

12. Conduct the pre-arranged tour of the production plant. Before going on tour, the students should prepare themselves as to what to look for or ask about. The information contained in all the Production Management lessons should be used to prepare for this tour. After the tour, the instructor should conduct a discussion to allow students to express their observations on the production plant and its operations.

SUBJECT PRODUCTION MANAGEMENT

LESSON PROD9 PLANNING AND SCHEDULING PRODUCTION

PROD9 - 1

SCHEDULING CHECKLIST

An effective way to plan a production schedule and implement it is to use a sequence checklist. In using this technique, you proceed from one criterion to the next, hopefully in the order of relative importance. In this manner, you can review the total project before you do any actual scheduling and thus save time and effort.

Initial questions should be designed so that they can be answered easily, often with 'yes or 'no'; later questions are more difficult and require more subjective judgment.

The sequence checklist that follows is divided into topics. No priorities are assigned because they vary from one business to another.

Scheduling Goals

1. Will the schedule provide a minimum of disruption to jobs already scheduled?
2. Does the schedule provide flexibility in case changes have to be made?
3. Is there sufficient lead time within jobs and between jobs to allow completion in a reasonable period of time?
4. Is this schedule the best of several alternatives?
5. Can the schedule be 'sold' to your production manager who will have to live with it?

Limitations

6. Is the schedule based on past proven data or on a number of assumed estimates?

7. What kinds of unpredictable events could jeopardize the schedule?

8. What provision has been made to meet unpredictable events?

9. Is the schedule built heavily around internal production or does it have a substantial dependence on outside contractors and suppliers?

10. What parts of the schedule are critical, such as specialized labour skills, unique machine applications, and tooling?

Timing

11. Is the time allocated to the schedule sufficient to provide adequate results?

12. Is machine work time scheduled to achieve the highest or, at least, a high utilization of machines and operating personnel?

13. Is the time of high-priced labour scheduled for maximum yield?

14. Should the schedule provide 'slack' so that later-acquired business can be worked into it?

15. Does the schedule provide for overtime work which can be utilized to provide supplemental production without excessive costs?

16. Have the times allocated to the schedule been based on sound standards or prior reliable experience?

17. Does the schedule include a time improvement factor based on the knowledge that work proficiency increases with more experience on the same job?

18. How much can the schedule be compressed?

Quantity

19. Does the schedule provide for increases or decreases in output without undue penalties?

20. Have quantities been cost analyzed in terms of the break-even point and the possibility of additional blocks of production?

21. What labour or machine processes are most restrictive on quantity output?

22. Can end production quantities be produced efficiently with existing labour and machine capabilities?

Quality

23. What over-all quality level will the schedule provide?

24. Have schedule modifications been studied as to their effect on quality?

25. Can acceptable quality be maintained when production is scheduled upward or downward?

26. Does the schedule take into account the impact of quality on sales and profit?

Costs

27. Have all costs been properly accounted for in the schedule?

28. Which costs are most fixed and which are most variable at different levels of output?

29. Has an adequate amount of overhead been assigned to the schedule at different levels of output?

30. What elements of the schedule are most critical in terms of controlling costs?

31. Is it known, or can it be estimated, how costs are shifted when the schedule is changed?

Profit

32. Is this the most profitable schedule?

33. What changes or modifications in this schedule are most profitable? Unprofitable?

34. Has the schedule been analyzed for profitability from the break-even point up to a maximum possible output?

35. Does the schedule consider both the long and short-run effects on profit?

Trade Offs

36. Is this schedule so devised that it can be replaced with one that is more advantageous?

37. If machine or labour portions are attractive to other possible production, can the schedule be maintained with available alternate methods?

38. How vulnerable is this schedule to replacement by other production?

39. How does this schedule compare with the best and worst of similar production schedules over a past comparable period of time?

Competition

40. Is this schedule consistent with known, proven techniques and methods?

41. Can the schedule be modified easily to capitalize on competitive strengths or weaknesses?

42. Is this the most competitive schedule?

43. Does the action of your competitors control your schedules?

44. How can your scheduling avoid direct 'head on' competition with other competitive manufacturers?

Checklist reproduced from the article, "Pointers on Scheduling Production" by John B. Kline, in Management Aids, No. 207. Washington: Small Business Administration, June, 1970.

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB28 THE SYNOPTIC JOURNAL

INSTRUCTOR'S GUIDE

OVERVIEW

The small businessman, because of the many jobs he is required to do, is always looking for simplified methods of performing the necessary tasks. Because of its repetitious nature, bookkeeping is one job that many small businessmen leave to the last. Therefore there is a need to present the small businessman with a simplified bookkeeping system. In this lesson the student is shown one such system. This system is generally called a "one-book" system because all transactions can be recorded into one multi-column journal.

A one-book system, which is basically several special journals combined into one book, must be designed to meet the needs of a specific business. For the small businessmen, having all the pertinent journal information entered into one book is a great advantage. The one book is called a Synoptic Journal.

OBJECTIVE

Given the necessary facts and figures, the student will set up and use a Synoptic Journal.

RESOURCES REQUIRED

1. Exercise FAB28 - 1 "The Synoptic Journal".
2. Multi-column journal sheets.

FAB28

METHODOLOGY

1. Hand out Readings.

2. Read and discuss the Purpose and Introduction with the students.

PURPOSE

The purpose of this lesson is to show you how to set up and use a one-book system of bookkeeping.

INTRODUCTION

The books of original entry of a business should be adapted to meet the needs of that business. In a small business the books of the business are generally done by one person only. This person records all payments, receipts, purchases and sales on credit, and makes all opening, adjusting and correcting entries. As only one person is involved in doing the books, the special Journals may be combined into one book called a Synoptic Journal.

By first understanding the make-up of the special Journals involved in a bookkeeping system, the bookkeeper can design a one-book system to meet the needs of the particular business. In this lesson you will be shown a typical Synoptic Journal and how transactions are recorded into it. You will then be shown how the necessary General Ledger accounts are posted from this Synoptic Journal.

OBJECTIVE: GIVEN THE NECESSARY FACTS AND FIGURES, THE STUDENT WILL SET UP AND USE A SYNOPTIC JOURNAL.

Stimulus

3. Ask the students what information should be contained in the Synoptic Journal.

Clarify Problem

4. Have one of the students list the students' answers on the flip chart.

Possible Answers:

1. Debit - Credit columns
2. Cash Debit - Credit
3. Bank Debit - Credit
4. Date
5. Description
6. Expenses -- itemized
7. Accounts Payable Debit - Credit
8. Accounts Receivable Debit - Credit
9. Other Receipts -- itemized
10. Other Payments -- itemized

Provide Information

5. Read Section 1 of the Readings. Compare the list of column titles with the list prepared by the students in point 4 above.

CONTENT

1. The Synoptic Journal

When one person does all the recording of transactions into the books of a business, all or several of the special Journals can be combined into a single Journal having many columns. A multi-column Journal that is used to combine all or several special Journals is called a Synoptic Journal. Most small businesses use some form of Synoptic Journal.

The number of columns required in a Synoptic Journal will depend upon the requirements of a particular business. It must be remembered that books are used to provide the business with required information; therefore, it is necessary to adapt the design of the Synoptic Journal to meet the needs of your particular business.

An example of a Synoptic Journal is shown in the attached pages (at the end of the lesson). Through the use of many columns the information contained in the special Journals is combined into one book.

a. Explanation of the Columns

(1) Date -- In this column, the date on which the transaction occurred is recorded.

(2) Description -- This column identifies the transaction and the information source.

(3) Cheque Number -- If a cheque is drawn up, this column will indicate the cheque number.

(4) Columns 1 to 16 -- These columns identify the General Ledger accounts involved in the transactions. The number of columns and the headings used will depend upon the amount of detail required. Column 6, "Other Receipts", can be expanded to include separate columns for such transactions as:

(a) Receipts from the sale of assets
(b) Loans
(c) Investments
(d) Grants
(e) Other receipts.

Column 13, "Other Expenses", could be expanded to include separate columns for expenses such as the following:

(a) Supplies
(b) Rent
(c) Telephone
(d) Interest
(e) Taxes - Business
(f) Licences
(g) Other Expenses
(h) Power

As much detail as the businessman requires can be detailed into the Synoptic Journal. But beware of using too many columns. If too many columns are used the Synoptic Journal becomes difficult to handle, and the necessary Journal paper very expensive. In addition, the chance of error increases as the number of columns increases, and checking the equality of the debits and credits becomes very time-consuming.

6. Hand out multi-column journal sheets.

7. Read Section 2 of the Readings. Instruct the students to set up a Synoptic Journal, and record the examples used in the readings. At all time stress that the Debit/Credit Rule of bookkeeping must be followed.

Students should realize that the columns of the Synoptic would be on the same page in their books. They are shown here in two pages for ease of printing. The second page is therefore a continuation of the colums on the first page.

2. Recording Transactions into a Synoptic Journal

Each transaction must be first analyzed into its debit and credit parts. This is done in the same manner as it is done for every General Journal entry, but in the Synoptic Journal only one line is used. Let us examine the transactions recorded in the attached Synoptic Journal.

June 5, 19

a. A loan of $2,000.00 was deposited to the bank account of the business. The debit/credit rule was followed. $2,000.00 was recorded in the debit column of the bank (1) and $2,000.00 was recorded in the credit column of the other receipts (6).

Debit bank	$2,000.00	column (1)
Credit other receipts	$2,000.00	column (6)

b. A cheque was written to obtain $200.00 cash from the bank account in order to have change in the till. This cheque was cheque no. 1 (since it was the first one written).

Credit bank	$ 200.00	column (1)
Debit cash	$ 200.00	column (2)

c. Equipment was bought from Wares Co. Cheque no. 2 for the amount of $550.00 was written to pay for this equipment.

Credit bank	$ 550.00	column (1)
Debit assets	$ 550.00	column (15)

d. A truck was bought for $550.00 from J. Miles. Cheque no. 3 was issued in payment.

Credit bank	$ 550.00	column (1)
Debit assets	$ 550.00	column (15)

e. The owner of the business had invested $500.00 into the business. He deposited this amount to the bank account.

Debit bank	$ 500.00	column (1)
Credit other receipts	$ 500.00	column (6)

June 6, 19

a. Purchased $1,200.00 worth of merchandise on account from T. Roy Ltd.

Debit purchases	$1,200.00	column (8)
Credit accounts payable	$1,200.00	column (10)

b. Issued cheque no. 4 of $150.00 to T. Lee for rent.

Credit bank	$ 150.00	column (1)
Debit other Expenses	$ 150.00	column(13)

c. Purchased $350.00 worth of merchandise from B. Bird. Issued cheque no. 5.

Credit bank	$ 350.00	column (1)
Debit purchases	$ 350.00	column (8)

June 7, 19

a. The information from the Daily Cash Sheet was recorded into the Synoptic. (See lesson FAB20, "Handling and Recording Cash," for details of the Daily Cash Sheet.)

Cash sales of $295.00 were made on June 7. $14.75 in sales tax was also taken into the business.

Cash was paid out for purchases ($160.00) and freight charges ($24.75).

As a result of the day's cash transactions, there had been an increase in cash of $125.00.

Debit cash	$125.00	column (2)
Credit cash sales	295.00	column (3)
Credit sales tax	14.75	column (5)
Debit purchases	160.00	column (8)
Debit freight	24.75	column (9)

b. $150.00 worth of merchandise was sold on credit.

Credit credit sales	$150.00	column (4)
Debit accounts receivable	$150.00	column (7)

Daily Cash Sheet
June 7, 19__

Receipts		Payments
$ 295.00	Cash Sales	
14.75	Sales Tax	
	Purchases	$ 160.00
	Freight Charges	24.75
$ 309.75	Total	$ 184.75

Total Receipts	$309.75
Total Payments	184.75
Increase in Cash	$125.00

Recorded Daily Cash Sheet

June 8, 19____

a. Recorded Daily Cash Sheet

Daily Cash Sheet
June 8, 19__

Receipts		Payments
$ 125.00	Cash Sales	
75.00	Received on account	
	Purchases	$ 15.00
	Supplies	10.00
$ 200.00	Total	$ 25.00

Total Receipts	$200.00
Total Payments	25.00
Increase in Cash	$175.00

Debit cash	$175.00	column (2)
Credit cash sales	125.00	column (3)
Credit accounts receivable	75.00	column (7)
Debit purchases	15.00	column (8)
Debit other expenses	10.00	column (13)

b. Paid $600.00 to T. Toy Ltd. as partial payment of account. Cheque no. 6 was issued.

Credit bank	$600.00	column (1)
Debit accounts payable	$600.00	column (10)

c. Made a bank deposit of $300.00

Debit bank	$300.00	column (1)
Credit cash	$300.00	column (2)

June 9, 19____

a. Paid P. Mann wages for week. Issued cheque no. 7 for the amount of $57.57.

Information is obtained from the payroll register or if there are very few employees, directly from the pay sheets.

P. Mann pay sheet information

Total Earnings		$68.00
Deductions		
Income tax	$8.80	
C.P.P.	1.02	
U.I.C.	.61	
Total Deductions		$10.43
Net Earnings		$57.57

The employer must contribute an equal amount for C.P.P. and 1.4 times for U.I.C. This amounts to $1.87.

Income Tax and U.I.C. - C.P.P. deductions and contributions are not sent in until after the end of June, therefore represent an account payable.

Credit bank	$57.57	column (1)
Credit accounts payable	12.30	column (10)
Debit wages	68.00	column (11)
Debit employer U.I.C.-C.P.P.	1.87	column (12)

b. Recorded Daily Cash Sheet

Daily Cash Sheet
June 9, 19___

Receipts

$1,025.00	Cash Sales	
25.00	Sales Tax	
75.00	Received on Account	
	Repairs	$ 225.00
$1,125.00	Total	$ 225.00

Total Receipts	$1,125.00
Total Payments	225.00
Increase in Cash	$ 900.00

Debit cash	$ 900.00	column (2)
Credit cash sales	1,025.00	column (3)
Credit sales tax	25.00	column (5)
Credit accounts receivable	75.00	column (7)
Debit other expenses	225.00	column (13)

c. Merchandise priced at $300.00 was sold on credit.

Credit credit sales	$ 300.00	column (4)
Debit accounts receivable	$ 300.00	column (7)

d. Owner took $600.00 from till.

Credit cash	$ 600.00	column (2)
Debit owner's drawings	$ 600.00	column (14)

e. A loan payment of $145.00 plus $7.43 interest was made. Cheque no. 8 was issued for $152.43.

Credit bank	$ 152.43	column (1)
Debit other expenses	$ 7.43	column (13)
Debit other payments	$ 145.00	column (16)

All transactions have followed the rule that the debits must equal the credits. In order to check the recordings each column is totalled. The debit totals must equal the credit totals. If they do, a double line is drawn under the totals. This is simply taking a Trial Balance and the amounts and column numbers can be listed on the Synoptic Journal.

8. Read Section 3 of the Readings.

3. Posting the Synoptic Journal

Certain of the columns of the Synoptic Journal should be posted daily to the General Ledger. These are the blank column (1) and the cash on hand column (2). Daily posting will give you running totals of the amount of money available.

All other columns are posted at the end of the accounting period. As is the case with special Journals, the accounts receivable and accounts payable entries are recorded in the subsidiary Ledgers and the totals of both these columns, column (7) and column (10) are posted to the control accounts in the General Ledger.

The "other receipts" column (6), the "other expenses" column (13), and "other payments" column (16) must be studied in order to identify the individual accounts to which the entries are to be made. For example the accounts involved in these columns in the attached pages are:

Other Receipts column (6)

Loan - Government	$2,000.00
Net Worth	500.00

Other Expenses column (13)

Rent	$ 150.00
Supplies	10.00
Repairs	225.00
Interest	7.43

Other Payments column (16)

Loan Payment	$ 145.00

9. Read Section 4 of the Readings.

4. Recording Closing and Adjusting Entries

All profit and loss accounts must be closed out or adjusted at the end of each accounting period in order to determine the increase or decrease in net worth as a result of the operations during the period.

The procedure for closing out these accounts or adjusting them is outlined in lesson FAB11, "Recording Closing Entries", and in lesson FAB24, "Making Adjustments".

The entries can be recorded on the Synoptic Journal as shown on the bottom left-hand corner of the attached fold-out. The inventory was counted on June 9, and the cost price of $1,025.00 was determined.

10. Read Section 5 of the Readings. Discuss with the students.

5. Summary

Accounting methods developed for large corporations may be cumbersome for many small enterprises. Especially since labour and other costs of paper work have increased so greatly, many small businessmen have sought and found simplified systems which are adequate for their needs. Many of these operate on the one-book principle, thus avoiding much duplication.

The one-book Synoptic Journal discussed and illustrated in this lesson is but one of many types that may be used by a small business. Each business will have different requirements and the businessman will have to adapt his records to the needs of his business.

The Synoptic Journal is frequently used in small businesses because it contains all the information required to keep adequate records and it can easily be posted by one person without a great deal of effort.

As with any Journal, the Synoptic is used as a book of original entry in order to post the General Ledger accounts of a business.

Indicator

11. Hand out Exercise FAB28-1. Have students complete the assignment.

FAB28

Questions (Exercise FAB28-1)

a. Bank Balance

			Debit	Credit
November	6	Beginning balance	$ 675.00	
	6	Withdrawal cheque #30		$ 175.00
	6	J.C. Williams Ltd. cheque #31		125.00
	8	W. Barum Ltd. cheque #32		200.00
	9	C. Charles cheque #33		180.25
	9	Deposit	731.00	
	10	W. Rae Ltd. cheque #34		450.00
	10	Loan Payment		175.00
	10	Deposit	115.00	
			$1,521.00	$1,305.25
		Balance	215.75	

b. Cash Balance

			Debit	Credit
November	6	Beginning balance	$	
	6	Cheque from bank	175.00	
	6	Cash sales	215.00	
	6	T. Clems		$ 2.00
	7	Cash sales	205.00	
	7	W. Bales	25.00	
	7	Freight		7.00
	8	Cash sales	125.00	
	9	Cash sales	120.00	
	9	Accounts receivable	25.00	
	9	Deposit		731.00
	10	Cash sales	115.00	
	10	Deposit		115.00
	11	Cash sales	190.00	
	11	Repairs		15.00
			$1.195 00	$ 870.00
		Balance	325.00	

c. Accounts Payable

			Debit	Credit
November	6	Beginning balance		$775.00
	6	J.C. Williams Ltd.	$125.00	
	7	W.W. Wholesale Ltd.		200.00
	8	W. Barum Ltd.	200.00	
	9	Withholding accounts U.I.C. - C.C.P. and Income Tax		24.97
	10	W. Rae Ltd.	450.00	
			$775.00	$999.25
		Balance		224.97

d. Accounts Receivable

			Debit	Credit
November	6	Beginning balance	$106.00	
	6	Credit sales	94.00	
	7	W. Bales		$ 25.00
	8	Credit sales	25.00	
	9	Collection		25.00
	11	Credit sales	10.00	
			$235.00	$ 50.00
		Balance	185.00	

FAB28

Solution to Example in Readings

DATE	Description	Cheque #	BANK		CASH ON HAND		CASH SALES	CREDIT SALES	SALES TAX	OTHER RECEIPTS	ACCOUNTS RECEIVABLE	
			DR	CR	DR	CR	CR	CR	CR	CR	DR	CR
19 —												
June 5	Loan - government		2000.00							2000.00		
5	Cash for Till	1		200.00	200.00							
5	Equipment - WARES Co	2		550.00								
5	Truck - J. Miles	3		550.00								
5	Investment		500.00							500.00		
	Opening Balances		2500.00	1300.00	200.00					2500.00		
June 6	Purchase - T. Roy Ltd.											
6	Rent - T. Lee	4		150.00								
6	Purchase - B. Bird	5		350.00								
7	Daily Cash Sheet				125.00		295.00		14.75			
7	Credit Sales							150.00			150.00	
8	Daily Cash Sheet				175.00		125.00					
8	T. Roy Ltd.	6		600.00								
8	Deposit		300.00			300.00						
9	P. Mann	7		57.57								
9	Daily Cash Sheet				900.00		1025.00		25.00			75.00
9	Credit Sales							300.00			300.00	
9	Personal withdrawal					600.00						
9	Loan Payment	8		152.43								
	TOTALS		2800.00	2610.00	1400.00	900.00	1445.00	450.00	39.75	2500.00	450.00	150.00
June 9	Closing Entries											
9	Cash Sales		1445.00									
9	Credit Sales		450.00									
9	Purchases			1725.00								
9	Freight			24.75								
9	Wages			68.00								
9	Employer - UIC-CPP			1.63								
9	Rent			150.00								
9	Supplies			10.00								
9	Repairs			22.50								
9	Interest			7.43								
9	Inventory		1025.00									

Solution to Example in Readings (cont.)

Purchases Dr	Freight Dr	Accounts payable Dr	Accounts payable Cr	Wages Dr	Employer UIC-CPP Dr	Other Expenses Dr	Owner's Drawings Dr	Assets Dr	Other Payments Dr	JUNE 9, 1972 TRIAL BALANCE	
										280000	261000
										140000	90000
											144500
								55000			45000
								55000			3925
											250000
								110000		45000	15000
										172500	
120000			120000								
										2425	
						15000					
										60000	121230
35000	2425										
										6800	
16000											
										187	
										39243	
						1000					
1500										60000	
		60000									
										110000	
										14500	
			1230	6800	187						
										930705	930705
						22540					
							60000				
						743			14500		
172500	2425	60000	121230	6800	187	39243	60000	110000	14500		

EXERCISE FAB28-1

DATE	DESCRIPTION	CHEQUE #	BANK DR	BANK CR	CASH ON HAND DR	CASH ON HAND CR	CASH SALES CR	CREDIT SALES CR	OTHER RECEIPTS CR	ACCOUNTS RECEIVABLE DR	ACCOUNTS RECEIVABLE CR	PURCHASES DR
19-												
Nov 6	Cash for Till	30		175.00	175.00							
6	T.C. Williams Ltd	31		125.00								
6	Cash Sales				215.00		215.00					
6	T. Clems					2.00						
7	W.W. Wholesale Ltd											200.00
7	Credit Sales							94.00		94.00		
7	Cash Sales				205.00		205.00					
7	W. Bales				25.00						25.00	
7	Freight					7.00						
8	Cash Sales				125.00		125.00					
8	Credit Sales							25.00		25.00		
8	W. Barnum Ltd	32		200.00								
9	Cash Sales				120.00		120.00					
9	C. Charles	33		150.00								
9	Accounts Receivable				25.00						25.00	
9	Bank Deposit		721.00			721.00						
10	Cash Sales				115.00		115.00					
10	W. Rae Ltd	34		450.00								
10	Loan Payment			175.00								
10	Deposit		115.00			115.00						
11	Cash Sales				190.00		190.00					
11	Credit Sales							10.00		10.00		
11	Repairs					15.00						
			846.00	1305.[illegible]	1195.00	870.00	970.00	129.00		129.00	50.00	200.00

EXERCISE FAB28-1 (cont.)

FREIGHT	ACCOUNTS PAYABLE		WAGES	EMPLOYER UIC-CPP	REPAIRS	OTHER EXPENSES	OTHER PAYMENTS		
DR	DR	CR	DR	DR	DR	DR	DR		
	125 00								
						2 00			
		200 00							
7 00									
	200 00								
		24 97	200 00	5 22					
	450 00								
						5 00	170 00		
					15 00				
7 00	775 00	224 97	200 00	5 22	15 00	7 00	170 00		

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB28 THE SYNOPTIC JOURNAL

EXERCISE FAB28-1

THE SYNOPTIC JOURNAL

Below is a series of transactions that occurred in the Middle Rapids Trading and General Store during the week November 6 - 11, 19__

DATE	TRANSACTION DESCRIPTION
Nov. 6	Withdrew $175.00 from the bank in order to have funds on hand. This left a bank balance of $500.00. Cheque number 30.
Nov. 6	Issued cheque number 31 to J.C. Williams Ltd., for $125.00 on account owing. Balance owing - nil. Accounts Payable balance was $775.00.
Nov. 6	Made cash sales of $215.00
Nov. 6	Paid T. Clems $2.00 out of the till for helping to clean stock room.
Nov. 7	Received shipment from W. W. Wholesale Ltd., $200.00 payable December 1, 19__.

FAB28

Nov. 7	Made credit sales of $94.00. Accounts Receivable now valued at $200.00.
Nov. 7	Made Cash sales of $205.00.
Nov. 7	Collected $25.00 from W. Bales in payment of his account receivable.
Nov. 7	Paid $7.00 cash freight charges.
Nov. 8	Made cash sales of $125.00
Nov. 8	Credit sales $25.00
Nov. 8	Issued cheque number 32 to W. Barum Ltd., for the amount of $200.00 in payment of account payable.
Nov. 9	Made cash sales $120.00.
Nov. 9	Issued cheque number 33 to C. Charles for the amount of $180.25. Deductions were: C.P.P. $ 2.70 U.I.C. 1.80 Income Tax 15.25
Nov. 9	Collected $25.00 on accounts receivable.
Nov. 9	Made cash deposit of $731.00
Nov. 10	Made cash sales $115.00
Nov. 10	Issued cheque number 34 to W. Rae Ltd., for the amount of $450.00.

Nov. 10	Made loan payment of $175.00 $ 170.00 on principle 5.00 interest Automatic bank debit.
Nov. 10	Made bank deposit of $115.00.
Nov. 11	Made cash sales $190.00.
Nov. 11	Made credit sales $10.00.
Nov. 11	Paid repair expense $15.00. Paid from till.

Instructions

1. Set up a Synoptic Journal and record into it the above transactions.

2. Answer the following questions:

   a. How much money is in the bank account of Middle Rapids Trading and General Store as of November 11, 19__?

   b. How much cash is in the till of the Middle Rapids Trading and General Store at the end of business on November 11, 19__?

   c. As of November 11, 19__, what amount is owed on Accounts Payable?

   d. As of November 11, 19__, how much is owed to Middle Rapids Trading and General Store from Accounts Receivable?

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB29 DEPRECIATION

INSTRUCTOR'S GUIDE

OVERVIEW

Depreciation is an expense which is often overlooked by the small business manager. Many managers see the cash outlay for a piece of equipment or a building as the cost. In bookkeeping, this is simply the purchase of the asset; the cost is incurred as the asset is used. The asset usually loses value as it is used. This loss in value is called depreciation.

It is almost impossible to actually calculate the real loss in value of an asset for each accounting period. The figures used for depreciation are only approximations of the real loss in value. The calculation of these approximations is important in terms of both accounting and income tax returns.

There are numerous methods of calculating depreciation, three of which will be covered in this lesson. The straight line method of calculating depreciation simplest method, but due to income tax regulations, it is not used by most businessmen.

The constant percentage methods (reducing balance method) of calculating is the most common method used by businessmen. It approximates fairly closely the decrease in value of many assets. It provides a larger amount of depreciation the first years and lesser amounts in later years.

The third method is used by car dealers to determine the value of used cars. It is a rough guide to trade-in values. It assumes a depreciation of 30% in the first year, approximately 21.4% in the second year, 18.2% in the third year, 11.1% in the fourth year and so on. Different used car dealers use different percentages.

The instructor will find it easier to teach the depreciation concept if he provides the students with many practical examples.

OBJECTIVE

Given the necessary facts and figures, the students will calculate the depreciation which can be deducted from the original book value.

RESOURCES REQUIRED

1. Projectuals: FAB29-1, "Straight Line Depreciation"
   29-2, "Constant Percentage Depreciation"
   29-3, "Comparison Between Straight Line and Constant Percentage Depreciation"
   29-4, "Percentage of New Value Depreciation".
2. Schedule of current capital allowance rates (from Master Tax Guide).
3. Schedule of rates for depreciation (from Master Tax Guide).
4. Canadian Master Tax Guide (section on capital allowances).
5. Exercise FAB29-1, "Depreciation Problems"

METHODOLOGY

1. Hand out the Readings and read the Purpose and Introduction.

PURPOSE

In this lesson you will learn what depreciation means and how you can calculate it.

INTRODUCTION

When you are in business it is important to have a knowledge of depreciation. Knowing the effect of depreciation in business can help you make decisions which will add to the success of your business.

FAB29

OBJECTIVE: GIVEN THE NECESSARY FACTS AND FIGURES, THE STUDENTS WILL CALCULATE THE DEPRECIATION WHICH CAN BE DEDUCTED FROM THE ORIGINAL BOOK VALUE.

Stimulus

2. Ask: "What does depreciation mean? How is it used?"

Clarify Problem

3. Discuss the questions. Some of the group will have had experience with depreciation and a short discussion should result.

Provide Information

4. Read Sections 1, 2 and 3 of the Readings.

CONTENT

1. What is Depreciation?

Depreciation means a decrease in value of an asset. For example, the trade-in value of a used car is less than the original price of that car. This is partly true because you have put miles on it and to some extent the car is worn out. However, even if you put that new car in the garage and did not drive it a single mile, the trade-in value would be down, because newer models, with style changes and improvements, have come out in the meantime.

In other words, we say that depreciation is a decrease in the value of a fixed asset because:

a. it wears out
b. it is out of date, or out of style.

2. Depreciation in Business

In business, depreciation is an expense. If you buy a truck to haul gravel, it will be worn out after a few years and you will have to replace it. It is necessary to make an allowance each year over the lifetime of the truck so that you will have money to buy a new one.

The government recognizes that depreciation is an expense, and the Department of National Revenue allows you to deduct this expense when calculating your income tax. They call it Capital Cost Allowance instead of depreciation. In other words, it is an allowance to enable you to recover the capital cost of buying fixed assets - trucks, buildings, equipment, etc. The Department of National Revenue lays down strict rules on how depreciation must be calculated.

3. Straight Line Depreciation

There are many ways of calculating depreciation. In this lesson we will discuss three methods that are important in small business, one of which is called straight line depreciation.

Straight line depreciation is calculated by dividing the cost of the asset by the number of years you expect it to last. This gives you the dollar amount of depreciation each year.

Suppose, for example, that you buy a piece of equipment for $1,000.00 and you expect it to be worn out in five years:

depreciation - $\frac{\$1,000.00}{5 \text{ years}}$ = $200 per year (which is equivalent to a constant yearly rate of 20% of the purchase price).

Your record of depreciation would look like this:

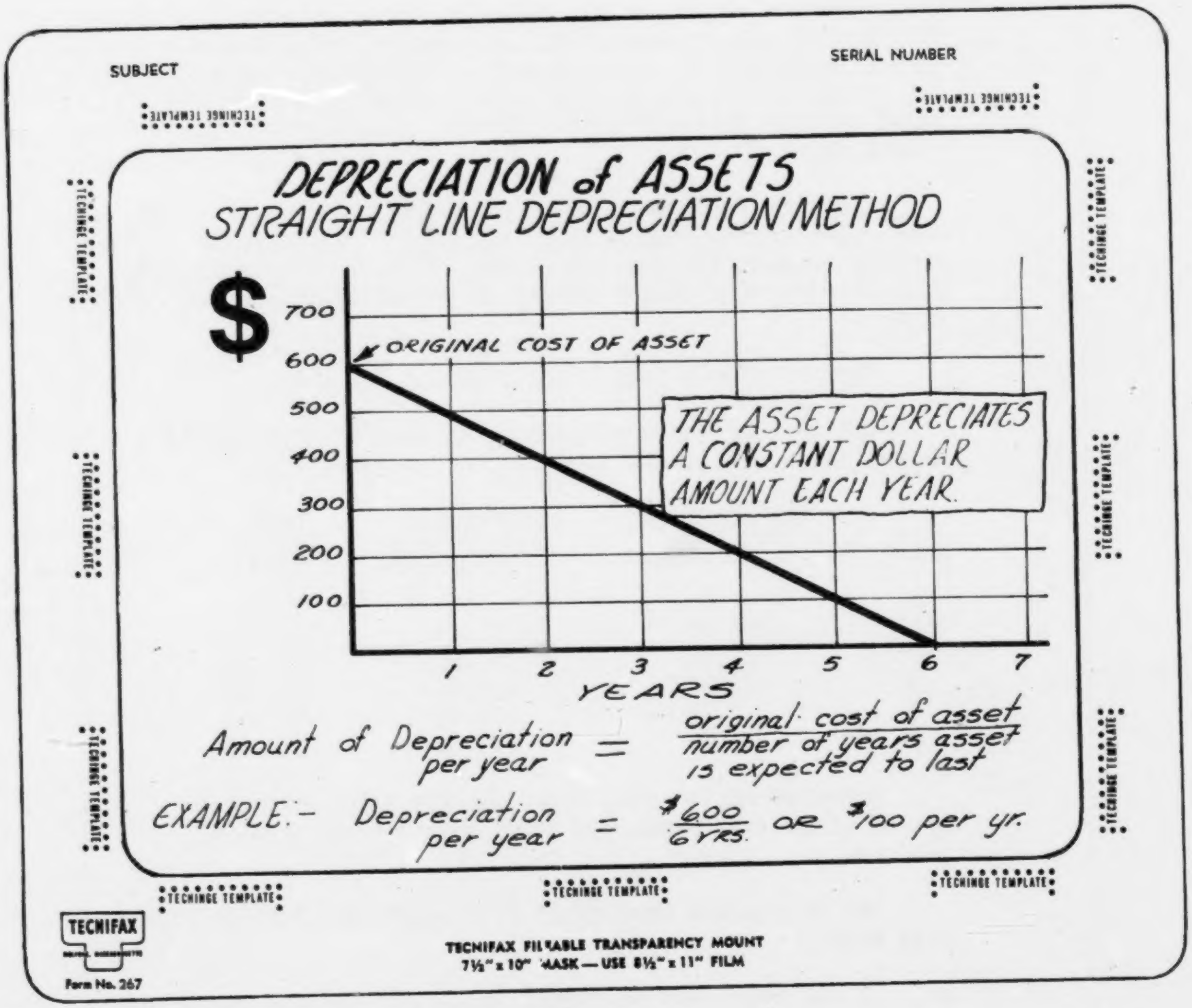
YEAR	DEPRECIATION PER YEAR	ACCUMULATED DEPRECIATION	BOOK VALUE
0			$1,000.00
1	$200.00	$ 200.00	800.00
2	200.00	400.00	600.00
3	200.00	600.00	400.00
4	200.00	800.00	200.00
5	200.00	1,000.00	-0-

Straight line depreciation is the easiest to calculate but because of income tax regulations it is seldom used in business. Only farmers and fishermen have the option of using it. In future this method will be less advantageous to them.

5. Show Projectual FAB29-1, "Straight Line Depreciation", and explain. Review above Readings if necessary, giving additional examples.

FAB29

FAB29-1 STRAIGHT LINE DEPRECIATION



DEPRECIATION of ASSETS

STRAIGHT LINE DEPRECIATION METHOD

THE ASSET DEPRECIATES A CONSTANT DOLLAR AMOUNT EACH YEAR.

$$\text{Amount of Depreciation per year} = \frac{\text{original cost of asset}}{\text{number of years asset is expected to last}}$$

$$\text{EXAMPLE:- Depreciation per year} = \frac{\$600}{6\text{ YRS.}} \text{ OR } \$100 \text{ per yr.}$$

6. Read Section 4 of the Readings.

4. Constant Percentage Depreciation

This is the method most in use today because of regulations set out by the Department of National Revenue (income tax). They call it Capital Cost Allowance. Capital cost is the original amount you paid for the asset. It is also called Market Value, or the value of the asset when you bought it, whether new or used. Once you use an asset and have deducted depreciation, the balance is called book value, which may or may not be the market value. Thus: Original Cost (also Capital Cost or Market Value) - Accumulated Depreciation = Book Value.

Constant percentage depreciation is calculated on the book value at the beginning of the year. Although the percentage remains the same, the book value declines each year and therefore the dollar amount of depreciation declines each year.

Depreciation = Book Value x Percentage Rate

Let us take the same example we used in straight line depreciation and at the same percentage rate (20%).

YEAR	DEPRECIATION PER YEAR	ACCUMULATED DEPRECIATION	BOOK VALUE
0	0	0	$1,000.00
1	$200.00	$200.00	800.00
2	160.00	360.00	640.00
3	128.00	488.00	512.00
4	102.40	590.40	409.60
5	81.92	672.32	327.68

You will notice that under the constant percentage method after five years you still have a book value of $327.68.

Let us suppose that after five years you want to replace this asset:

a. If the asset has no market value and you are unable to sell it, the income tax people allow the whole $327.68 in depreciation and you can charge it to expense in that year.

b. If you sell it for $200.00 you can depreciate the difference: $327.68 - $200.00 = $127.68. (You can charge $127.68 to expenses in that year.)

c. If you sell it for $500.00, then you have to declare that portion which had been depreciated before: $500.00 - $327.68 = $172.32 as income.

d. If you manage to sell it for $1,200.00, then you count that portion which had previously been allowed for depreciation: $1,000.00 - $327.68 = $672.32, as income and the excess $1,200 - $1,000.00 = $200.00 as capital gain.

Recovering depreciation (above) is called Recapture of Capital Allowance. Although recaptured capital allowance is considered income, you may deduct it from the book value of other assets in the same depreciation rate. If you do not have other assets in the same rate (or class) then you have to declare it as income in your Profit and Loss Statement.

7. Show Projectual FAB29-2, "Constant Percentage Depreciation" and FAB29-3, "Comparison Between Straight Line and Constant Depreciation". Discuss.

8. Read Section 5 of the Readings. Distribute the Schedule of Rates for Depreciation and the Schdule of Current Capital Cost Allowance Rates. Discuss.

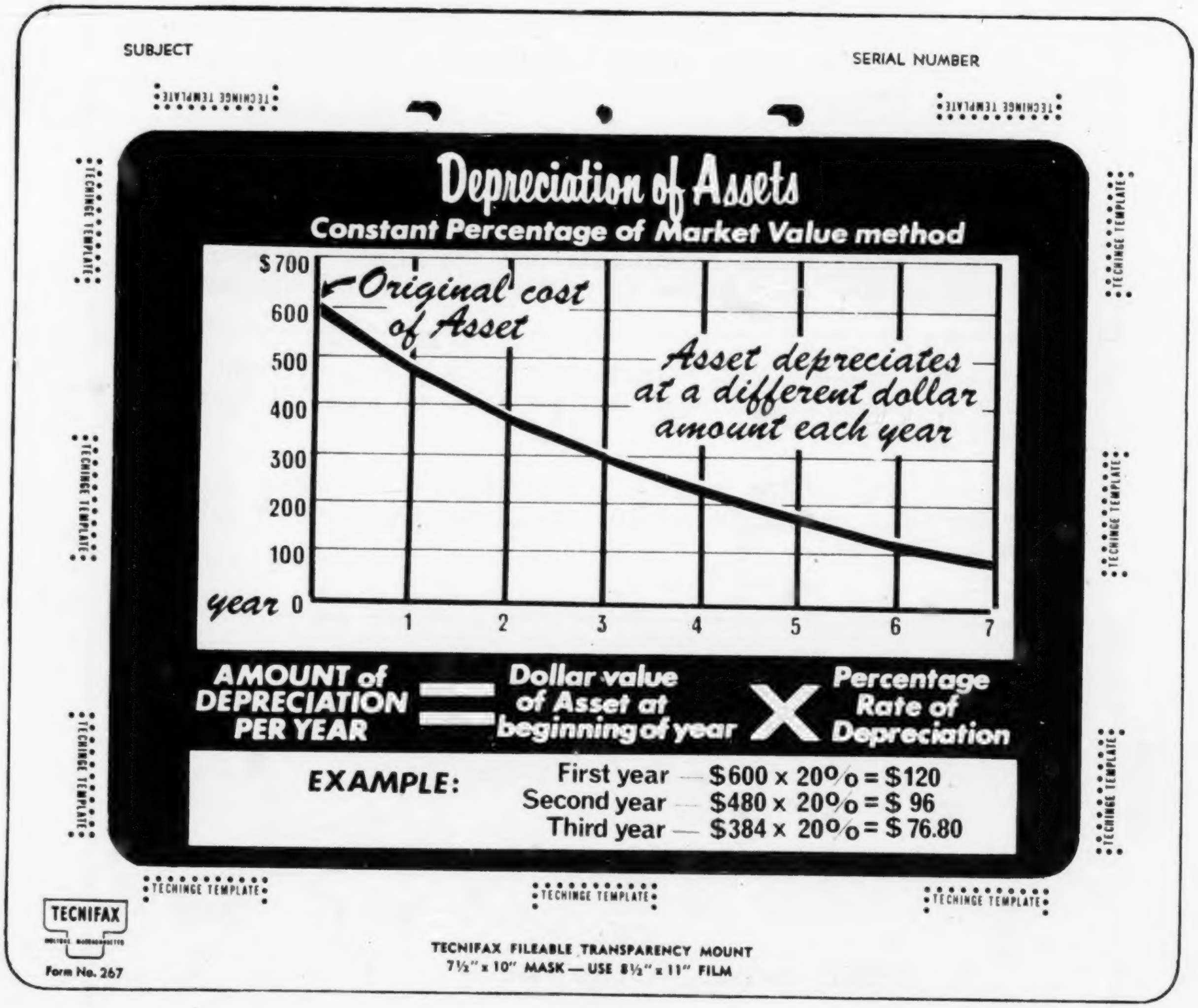
5. Schedule of Depreciation Rates

To be fair to all businesses, the Department of National Revenue has established a Schedule of Rates to be used. These are contained in the Canadian Master Tax Guide. Some of the many items are listed below.

SCHEDULE OF CURRENT CAPITAL COST ALLOWANCE RATES

	RATE %	CLASS
1. Asphalt surface, storage yard	4	1
2. Assets, tangible capital not specifically listed	20	8
3. Automobiles	30	10
4. Automotive equipment	30	10

FAB29-2 CONSTANT PERCENTAGE DEPRECIATION



SUBJECT

SERIAL NUMBER

Depreciation of Assets

Constant Percentage of Market Value method

$700
600
500
400
300
200
100
year 0
1
2
3
4
5
6
7
Original cost of Asset
Asset depreciates at a different dollar amount each year
TECHINGE TEMPLATE

AMOUNT of DEPRECIATION PER YEAR = Dollar value of Asset at beginning of year X Percentage Rate of Depreciation

EXAMPLE:

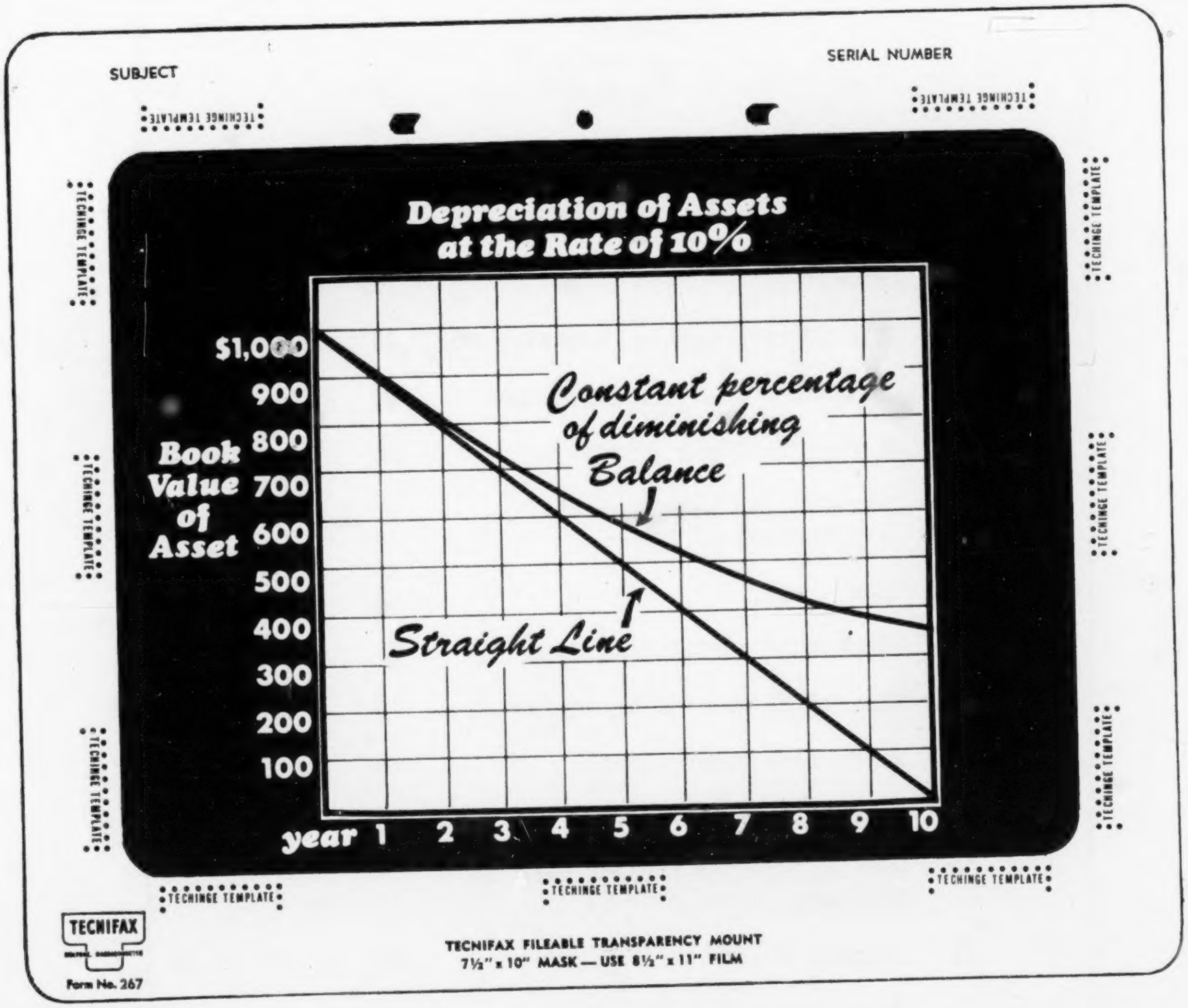
First year — $600 x 20% = $120
Second year — $480 x 20% = $ 96
Third year — $384 x 20% = $ 76.80

TECNIFAX

Form No. 267

TECNIFAX FILEABLE TRANSPARENCY MOUNT
7½" x 10" MASK — USE 8½" x 11" FILM

FAB29-3 COMPARISON BETWEEN STRAIGHT LINE AND CONSTANT PERCENTAGE DEPRECIATION



		RATE %	CLASS
5.	Boats	15	7
6.	Breakwaters (a) wooden	10	6
	(b) other	5	3
7.	Buildings (a) brick, stone, cement, etc.	5	3
	(b) frame, log, stucco galvanized or corregated iron	10	6
8.	Boilers heating use (same rate as buildings, class 3 or 6)		
9.	Buses	30	10
10.	Canoes	15	7
11.	Cold storage plants, lockers, etc.	20	8
12.	Contractor's movable equipment	30	10
13.	Display fixtures (window)	20	8
14.	Distributing equipment for distribution of gas	6	2
15.	Docks	5	3
16.	Electrical advertising signs	35	11
17.	Electrical generating equipment	6	2
18.	Electrical power plants	6	2
19.	Gas Plants	6	2
20.	Heating equipment (same rate as building, class 3 or 6)		
21.	Logging mechanical equipment	30	21
22.	Machinery and equipment not specifically listed	20	8
23.	Neon Signs	35	11
24.	Outdoor advertising signs	35	11

FAB29

		RATE %	CLASS
25.	Plumbing (same rate as building, class 3 or 6)		
26.	Portable construction camp buildings	30	10
27.	Power operated movable equipment	50	22
28.	Power plants (electric)	6	2
29.	Refrigeration equipment	20	8
30.	Row boats	15	7
31.	Scows	15	7
32.	Sleighs	15	7
33.	Sprinkler systems (same rate as building, class 3 or 6)		
34.	Storage area	4	1
35.	Storage tanks, oil or water	10	6
36.	Tools (under $100.00)	100	12
37.	Tractors	30	10
38.	Trailers	30	10
39.	Trucks, automotive	30	10
40.	Wagons	30	10
41.	Water storage tanks	10	6
42.	Water works	6	2
43.	Wharves	5	3

SCHEDULE OF RATES FOR DEPRECIATION

CLASS	RATE %
1	4
2	6
3	5
4	6

CLASS	RATE %
5	10
6	10
7	15
8	20
9	25
10	30
11	35
12	100
16	40
17	8
18	60
22	50
23	100

You will notice that various items in the same rate are also in the same class. When calculating depreciation you can put all items which you are using in your business and which are in the same class together and make one calculation for each class.

For instance, trucks, trailers and portable construction buildings are in Class 10, and all are calculated at 30%. Therefore, you can post them into the same Ledger sheet and make one calculation. Land is not depreciated.

9. Read and discuss Section 6 of the Readings.

6. Car Dealers' Depreciation

There is a third method of calculating depreciation which is useful to know. This is the method used by car and truck dealers to find the value of trade-ins. The method they use is Percentage of New Value.

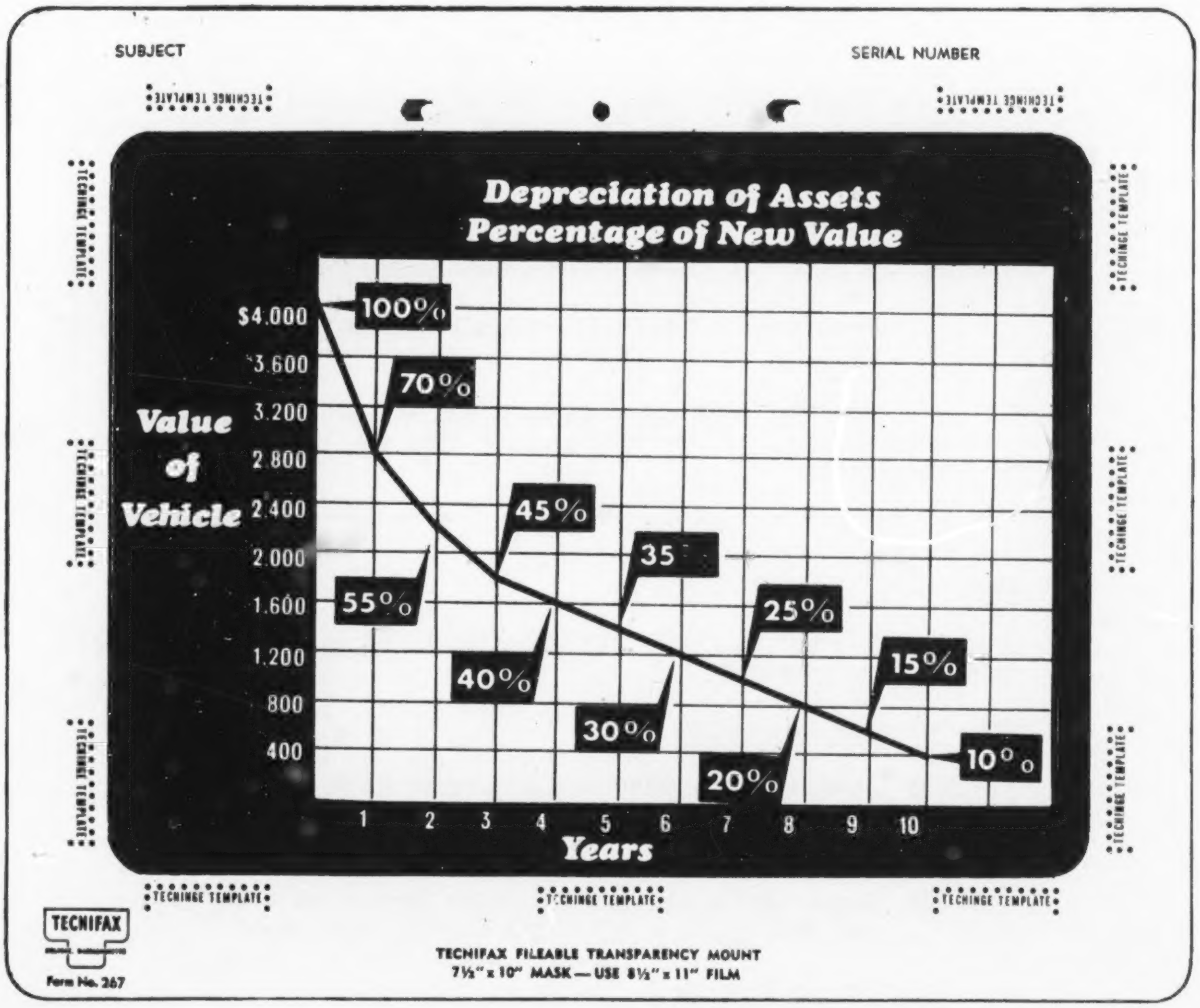
Suppose that the new value of your car or truck was $4,000.00. Then:

New Value = $4,000.00

Year 1 70% of N.V. = Trade-in Value of $2,800.00
Year 2 55% of N.V. = Trade-in Value of 2,200.00
Year 3 45% of N.V. = Trade-in Value of 1,800.00
Year 4 40% of N.V. = Trade-in Value of 1,600.00

In additional years the trade-in value continues to decline at 5% of N.V. or $200.00 per year.

FAB29-4 PERCENTAGE OF NEW VALUE DEPRECIATION



10. Show Projectual FAB29-4, "Percentage of New Value Depreciation" and discuss.

11. Read Section 7 of the Readings.

> 7. Summary
>
> Depreciation means a decrease in value of an asset. It is an expense in business, deductible under the Income Tax Act.
>
> Straight line depreciation is an old, simple method of calculation but is no longer much in use. It is good to know this method because all other methods have been developed from it.
>
> Constant percentage depreciation is the most important method today because of Income Tax regulations.
>
> Percentage of new value affects all of us when we trade in a used car or appliance.
>
> Money is paid out when an asset is purchased. Depreciation is a way of getting it back over the service life of the asset.

Indicator

12. Hand out Exercise FAB29-1, "Depreciation Problems". Have students complete the problems.

    a. Solution to Problem 1

       (1) It would take $\frac{\$600}{15\%}$ = 6 2/3 years to depreciate the motor.

       (2) Depreciation per year would be $600 x 15% = $90 a year and $600 x 15% x 2/3 = $60 for the last year.

    b. Solution to Problem 2

       35% of $4,000 = $1,400

c. Solution to Problem 3

Class 6 = 10% rate of depreciation

	Year	Dep.	Acc. Dep.	Book Value
Workshop	0			$3,000
	1	$300	$300	2,700
	2	270	570	2,430

Class 10 = 30% rate of depreciation

	Year	Book Value
Portable Building A	0	1,000
Building B	0	800
Building C	0	1,200
Tractor A	0	8,000
B	0	12,000
Truck A	0	5,500
B	0	4,500
Low Bed Trailer	0	2,000
Total Class 10		35,000

Year	Dep.	Acc. Dep.	Book Value
0			35,000
1	10,500	10,500	24,500
2	7,350	17,850	17,150

Class 8 = 20% rate of depreciation

	Year	Book Value
Adding Machine	0	200
Typewriter	0	150
Cash Register	0	150
Total Class 8		500

Year	Dep.	Acc. Dep.	Book Value
0			500
1	100	100	400
2	80	180	320

Total accumulated depreciation in two years =
$570 + $17,850 + $180 = $18,600.

FAB29

NOTE: Land is not depreciated. Inventory, as a current asset and the house, as personal property, do not qualify for capital cost allowance.

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB29 DEPRECIATION

EXERCISE FAB29 - 1

DEPRECIATION PROBLEMS

PROBLEM 1

Mike Mitchell is a fisherman who bought a new outboard motor for $600.00. According to the fishermen's depreciation table he can use straight line depreciation at the rate of 15%.

1. How many years would it take to depreciate the motor completely?

2. What would the annual dollar amount of depreciation be?

PROBLEM 2

Terry Jones bought a car for $4,000 in April 1966 and traded it in March 1971. What would be the trade-in value of the car? (Use the percentage scale given in Section 6 of the Readings.)

FAB29

PROBLEM 3

Tony Klein bought out a construction contractor. The purchase price included 10 acres of land which was the company headquarters. On the land were two permanent buildings - a house, which was the contractor's residence and a large workshop. All other buildings and equipment were portable. One portable building was used as a store for sale of clothing, tobacco and sundries to construction crews.

Value of the assets purchased was as follows:

Land 10 acres	2,000
House (frame 28 x 38)	11,000
Workshop (frame 40 x 40)	3,000
Portable Building A	1,000
Portable Building B	800
Portable Building C	1,200
Tractor A	8,000
Tractor B	12,000
Truck A	5,500
Truck B	4,500
Low Bed Trailer	2,000
Adding Machine	200
Typewriter	150
Cash Register	150
Store Inventory	1,200

What would be the accumulated depreciation (Capital Cost Allowance) after two years?

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB30 YEAR-END ADJUSTMENTS

INSTRUCTOR'S GUIDE

OVERVIEW

The student has learned the fundamentals of bookkeeping. He has had an opportunity to review the accounting cycle in progressive stages. Prior to the preparation of financial statements for the third time, the student should be aware that some transactions are not recorded in the usual fashion and must be adjusted at the end of a fiscal period to reflect the true state of the business.

This lesson considers two types of adjustments which a business must make to reflect an accurate picture of the business. They are adjustments for bad debts and for depreciation.

The students will realize that as credit sales were made the books recorded the transaction as sales and the amounts were recorded as accounts receivable. If some of the accounts receivable are not collectable the business has recorded receipts which it will not receive. The books should write off any amounts it feels cannot be collected. This does not mean that the businessman will not continue trying to collect these accounts. If they are later collected, they are then added to income.

The students should realize that it could be quite misleading to keep in the receivables large amounts of accounts receivable that are not likely collectable. It is best each year to adjust the books for accounts receivable that are considered as bad debts.

In the last lesson, the students were introduced to depreciation. They saw that depreciation is the reduction in asset value due to its use in the business. The year-end adjustment is the method of reflecting this loss in value in the business financial statements.

The amount of depreciation used in the year-end adjustments is normally the amount allowed by the Department of National Revenue. The adjustment to the asset account (reduction in asset value) is charged as depreciation against the current years income.

The instructor may have to provide additional explanations which will help the student understand the nature of adjustments.

The lesson does not discuss other possible adjusting entries. There are a number that businessmen may have to make to reflect the accurate financial position of the business. The business may have prepaid such items as wages, insurance, taxes, etc. These are recorded as expenses and yet are not really expenses for the current accounting period. On the other hand adjusting entries may be required for expenses incurred and not yet paid. Common examples of these are wages, taxes, accrued interest and miscellaneous bills which have not been paid, etc.

The student should be conscious that year-end adjusting entries have as a purpose the preparation of financial statements which reflect the true income and expenses for the year as well as an accurate picture of the assets and liabilities of the business.

OBJECTIVE

The student will become familiar with making year-end adjustments for bad debts and depreciation.

RESOURCES REQUIRED

1. Case FAB30-1, "Year-End Adjustments".

METHODOLOGY

1. Hand out Readings and read the Purpose and Introduction.

PURPOSE

In this lesson you will learn how to make year-end adjustments for bad debts and depreciation.

INTRODUCTION

At the end of the year, you, as a businessman, will be making up your financial statements. This is the time for you to calculate non-cash expenses, such as depreciation and bad debts. You must include them in your year-end statement. The calculation of these expenses will have to be made within certain guidelines laid down by the Department of National Revenue.

OBJECTIVE: THE STUDENTS WILL BECOME FAMILIAR WITH MAKING YEAR-END ADJUSTMENTS FOR BAD DEBTS AND DEPRECIATION.

Stimulus

2. Distribute Case FAB30-1, "Year-End Adjustments", and read with the group.

Clarify Problem

3. Ask the question at the end of the case. Explain that the students do not have the information about the individual accounts that Bill Brooks would have, but that they should make an analysis of the summary of accounts receivable on the basis of the information that is given.

Provide Information

4. Read and discuss the Readings with the students step by step. Note how bad debts came about even though Bill Brooks was a careful credit manager.

CONTENT

1. Year-end Adjustment for Bad Debts

If you are giving credit in your business, you will have some losses. Even if you are a very good credit manager, you will be fortunate if your losses are less than one per cent of your sales. Fortunately, the Department of National Revenue recognizes such losses and allows you to deduct them as a business expense.

In Case FAB30-1, Bill Brooks had to make an honest assessment of his accounts receivable as they stood at the year-end. He decided that the following accounts should be written off as bad debts:

a. Fred Barker -- $8.11
Fred had not been in the district long when he lost his anti-freeze on a very cold day. Fred had no money with him but promised to pay the next day. Bill took a chance on this, but Fred left the district without paying. He left no forwarding address.

b. R.E. Cable -- $18.31
Bob Cable, who was a good customer, always paid cash for his merchandise. One day he was short of money so Bill let him have $18.31 worth of goods on credit. After that Bob never came back to the store. It looks like Bill has lost the account as well as a good customer.

c. S.T. Felt -- $14.42
Stan Felt came in on his tractor one warm fall day. When the weather turned cold Bill sold him a jacket on credit. Later Stan said the jacket came apart at the seams so he was not going to pay for it. Bill told him to return the jacket so he could put in a claim to the wholesaler, but Stan never brought it back to the store.

d. Ted Grant -- $84.40
Ted was a good worker and he always paid his bills. Ted died suddenly leaving his wife and four small children with very few assets. Ted had not paid his bill when he died; however, his wife acknowledged the account and promised to pay when and if finances allowed. Bill decided to write off that account, even though it might be collected at some future date.

The total accounts receivable to be written off were:

Fred Barker	$ 8.11
R.E. Cable	18.31
S.T. Felt	14.42
Ted Grant	84.40
Total	$125.24

Bill Brooks wrote off the amount $125.24 on the accounts receivable control card as shown.

Bill also wrote off the bad debts on the individual accounts. For example, he wrote off $84.40 on Ted Grant's account.

FAB30

ACCOUNT NO.

NAME Accounts Receivable Control

ADDRESS

SHEET NO.

TERMS

CREDIT LIMIT

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR or CR	✓	BALANCE
1970										
Dec	27							Dr		1994 10
	28				84 10		18 51	Dr		2059 69
	29				49 40		56 18	Dr		2052 91
	30				18 19		39 50	Dr		2031 60
	31				85 23		17 31	Dr		2100 00
	31	Bad Debts Written Off to Expense					125 24	Dr		1914 78

FAB30

ACCOUNT NO. ____________ SHEET NO. 3
NAME Ted Grant TERMS ____________
ADDRESS ____________ CREDIT LIMIT 125.00

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR or CR	✓	BALANCE
1969 Nov	30	Balance Forward						Dr		110 30
Dec	1	Received on Account					110 30			⊖
	5	Groceries			32 41			Dr		32 41
	18	Groceries			25 80			Dr		58 21
1970 Jan	5	Merchandise			26 19			Dr		84 40
Dec	31	Written Off to Bad Debts					84 40			⊖

Bill left the written-off accounts in the Ledger and instructed his clerks to:

a. Give no more credit to these people, under any circumstances.

b. Try to collect if they had the opportunity.

2. Year-end Adjustment for Depreciation

In lesson FAB29 you learned how to calculate depreciation. In this lesson you will learn how to make the year-end adjustment for depreciation.

Suppose that Bill Brook's store building was of frame construction and worth $10,000.00 when he bought it three years ago. At the same time he also bought scales for $200.00, an adding machine for $95.00, and a cash register for $150.00. Bill's year-end adjustments for depreciation on these items are shown on the asset sheets.

The method used by Bill Brooks to show his expense for bad debts and depreciation is shown on the Profit and Loss Statement and Balance Sheet.

3. Notes on Financial Statements

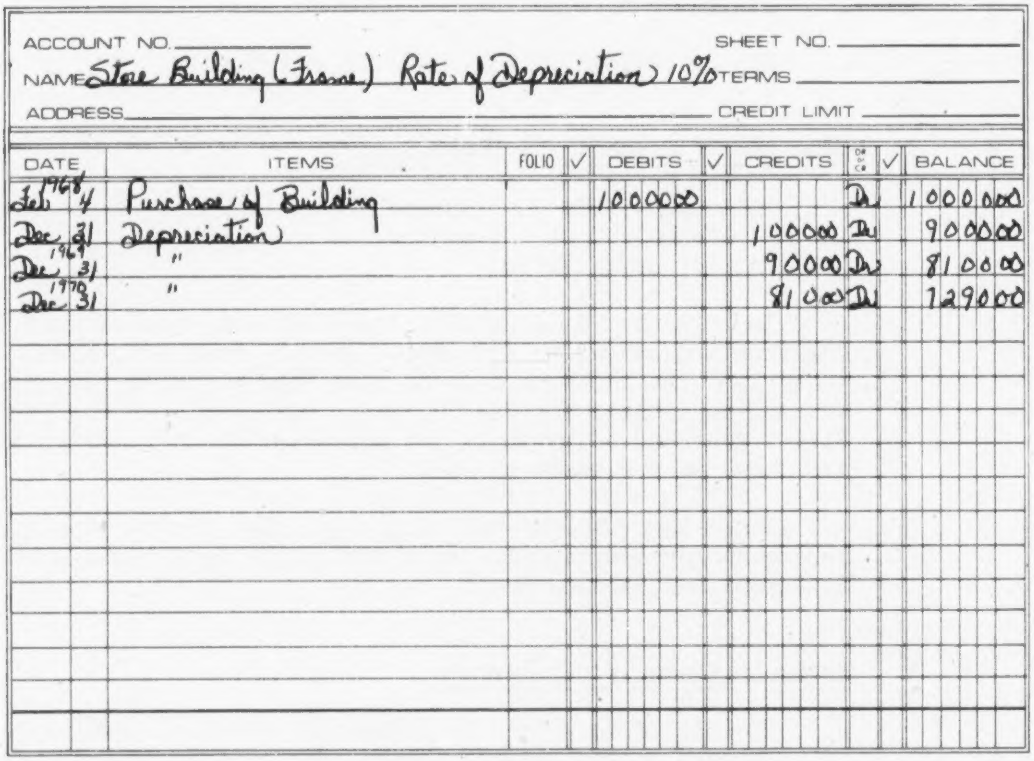
a. The $2,100.02 listed in Summary of Accounts Receivable appears on the Balance Sheet under current assets. The bad debts amount of $125.24 appears on the Profit and Loss Statement under expense.

b. On the Balance Sheet, the original cost of buildings and equipment is set out under fixed assets. Accumulated depreciation is deducted leaving a book value of $7,290.00 and $227.84 respectively. The current year's depreciation (of $810.00 + $56.96 = $866.96) is charged to expenses in the Profit and Loss Statement.

c. If any accounts written off in previous years had been collected this year, the amount would be included in other income. Details of bad debts and other income have to be listed for income tax purposes.

d. The owner's drawings are deducted from net profit and the balance is added to the owner's equity (Balance Sheet). If the owner draws more than the net profit, it decreases his equity.

FAB30



ACCOUNT NO. ____________ SHEET NO. ____________

NAME Store Building (Frame) Rate of Depreciation 10% TERMS ____________

ADDRESS ____________ CREDIT LIMIT ____________

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	Dr or Cr	✓	BALANCE
1968 Feb	4	Purchase of Building			1000000			Dr		1000000
Dec	31	Depreciation					100000	Dr		900000
1969 Dec	31	"					90000	Dr		810000
1970 Dec	31	"					81000	Dr		729000

4. Summary

It is important for you, as a businessman, to take an honest look at your accounts receivable at the year-end, and write off those that you are unlikely to collect.

W.A. Brooks
Profit and Loss Statement
For the year ending December 31, 1970

Sales		$80,092.67
Cost of Goods Sold		
Inventory, Dec. 31, 1969	$14,318.00	
Merchandise Purchases	61,840.78	
Freight	1,667.47	
Cost of Goods Available for Sale	$77,826.25	
Less: Inventory, Dec. 31, 1970	13,587.00	
Cost of Goods Sold		64,239.25
Gross Profit		$15,853.42
Expenses		
Bad Debts Written Off	125.24	
Bank Charges	20.49	
Depreciation Expense	866.96	
Heat, Light, Power	955.62	
Interest	455.70	
Office & Store Supplies	172.75	
Postage	59.40	
Repair & Maintenance	179.33	
Salaries	3,918.40	
Tax & Licence	985.22	
Total Expenses		7,739.11
Operating Profit		$ 8,114.31
Plus: Other Income		86.91
Net Profit to Balance Sheet		$ 8,201.22

FAB30

W.A. Brooks
Balance Sheet
for the year ending December 31, 1970

Assets

Current Assets			
Cash on Hand		$ 1,380.15	
Cash in Bank		892.17	
Accounts Receivable	$ 2,100.02		
Less: Bad Debts	125.24	1,974.78	
Inventory, Dec.31/70		13,587.00	
Total Current Assets			$17,834.10
Fixed Assets			
Buildings	10,000.00		
Less: Acc. Dep.	2,710.00	7,290.00	
Equipment	445.00		
Less: Acc. Dep.	217.16	227.84	
Total Fixed Assets			7,517.84
Total Assets			$25,351.94

Liabilities & Owner's Equity

Current Liabilities			
Trade Accounts Payable		2,852.90	
Long-Term Liabilities			
Bank Loan		5,627.80	
Total Liabilities			8,480.70
Owner's Equity			
At Dec. 31/70	$14,670.02		
From P & L Statement	8,201.22	22,971.24	
Less: Owner's Drawings		6,000.00	
Total Owner's Equity			$16,971.24
Total Liabilities & Owner's Equity			$25,351.94

FAB30

Indicator

5. Group discussion.
6. Provide additional exercises, if necessary.

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB30 YEAR-END ADJUSTMENTS

CASE FAB30 - 1

YEAR-END ADJUSTMENTS

Bill Brooks had finished taking his year-end inventory and was now making up his financial statements. There were two adjustments he had to make to the statements, one of which was writing off bad debts.

Bill made up a summary of accounts receivable, and from the list, he tried to decide which accounts were collectable and which ones were hopeless. When he had honestly decided which accounts were bad, he prepared to make the adjustment.

The other adjustment he had to make was calculating his depreciation and charging it to expense.

Question for Discussion

1. Which of Bill Brooks' accounts would you consider to be bad debts?

SUMMARY OF ACCOUNTS RECEIVABLE DEC. 31/70

NAME	DATE OF LAST ENTRY	UNDER 60 DAYS		OVER 60 DAYS		TOTAL		REMARKS
1. Adams F.G.	Dec. 5/70	$ 15	20	$		$ 15	20	
2. Arneson H.	Dec/15/70	29	89			29	89	
3. Bailey N.F.	July 10/70			134	10	134	10	Sick - not working
4. Barker Fred	Jan. 15/70			8	11	8	11	Address unknown
5. Barr J.J.	Nov. 15/70	210	14			210	14	

NAME	DATE OF LAST ENTRY	UNDER 60 DAYS		OVER 60 DAYS		TOTAL		REMARKS
6. Bruce Ed	Oct. 1/69	$		$ 79	87	$ 79	87	Unable to sell grain
7. Cable R.E.	July 6/70			18	31	18	31	Inactive
8. Church Tony	Sept. 18/70			119	14	119	14	Promises to pay
9. Cowan S.T.	Oct. 4/70			89	90	89	90	Doubtful
10. Dembisky A.	Dec. 31/70	14	10			14	10	
11. Eaton R.A.	May 10/70			19	80	19	80	Collectable
12. Elgie John	July 8/69			142	14	142	14	Can be garnished
13. Felt S.T.	Apr. 12/70			14	42	14	42	Refuses to pay
14. Fisher F.S.	Nov. 30/70	118	18			118	18	
15. Foraie N.	Dec. 24/70	42	33			42	33	
16. Friske S.F.	Dec. 10/70	21	10			21	10	
17. Gogal Nick	Oct. 8/70			95	10	95	10	Has been good in the past
18. Grant Ted	Jan. 5/70			84	40	84	40	Deceased - not collectable
19. Hardy S.A.	Dec. 15/70	114	80			114	80	
20. Hoffers J.	Dec. 30/70	94	80			94	80	
21. Jensen O.K.	Dec. 15/70	210	10			210	10	
22. Jones Stu	Nov. 30/70	46	60			46	60	
23. Little M.A.	Dec. 15/70	75	41			75	41	
24. Massey F.	June 15/70			55	60	55	60	Unemployed. Will pay if possible
25. Reid P.T.	Dec. 30/70	91	13			91	13	
26. Sharpe T.E.	Dec. 23/70	114	06			114	06	
27. Webb E.E.	Dec. 18/70	41	29			41	29	
		$1,239	13	$860	89	$2,100	02	

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB31 PREPARING FINANCIAL STATEMENTS

INSTRUCTOR'S GUIDE

OVERVIEW

The students have been previously introduced to financial statements in lessons FAB9 and 10. In this lesson they will learn more precisely how to prepare a Profit and Loss Statement and a Balance Sheet.

It is very important that students know how to get the information required for the preparation of these statements from a summary of the daily records kept by the business.

It is of little use keeping a record of business transactions without summarizing the information into a Profit and Loss Statement and a Balance Sheet. Meaningful analysis of the performance of the business is only possible if these financial statements are prepared. Future lessons will discuss the use and interpretation of the financial statements.

OBJECTIVE

The students will correctly prepare a set of financial statements.

RESOURCES REQUIRED

1. Case FAB31-1, 'Mic Mac Market"

METHODOLOGY

1. Hand out the Readings; read and discuss the Purpose and Introduction with the students.

PURPOSE

In this lesson you will learn how to prepare detailed financial statements from a set of business records or books.

INTRODUCTION

At the end of each business day, you make entries into your books. Over a period of time these entries will be only numbers in your books unless you prepare financial statements.

Financial statements tell the story of how your business is doing. They answer the following questions:

1. Did your business make or lose money over a certain period of time?
2. How much money does your business owe?
3. What is the value of assets owned by your business?
4. How much money have you invested in your business?

Only by knowing the answers to these and other questions can you see if your business is a success.

OBJECTIVE: THE STUDENTS WILL CORRECTLY PREPARE A SET OF FINANCIAL STATEMENTS

Stimulus

2. Ask: "What are financial statements, and what can they tell you?"

3. Read and discuss Section 1 of the Readings with the students.

CONTENT

1. Financial Statements

The financial statements you will be preparing in this lesson are:

a. The Profit and Loss Statement
b. The Balance Sheet.

The Profit and Loss Statement tells you whether your business had made or lost money over a period of time. It can be compared to a movie picture because the Profit and Loss Statement shows how things happen over a period of time.

A Balance Sheet tells you how much the business owns (assets), how much the business owes (liabilities), and how much you, the owner, have invested in the business (owner's worth).

Provide Information

4. Read Sections 2 to 8 of the Readings. Have the students prepare a blank Profit and Loss Statement. Refer them to the Readings to clarify any problems they have in preparing the statement.

2. The Profit and Loss Statement

a. The main sections of the Profit and Loss Statement are:

(1) Sales
(2) Cost of Goods Sold
(3) Expenses.

b. The calculations for the Profit and Loss Statement are:

	INCOME
minus	COST OF GOODS SOLD
equals	GROSS PROFIT
minus	EXPENSES
equals	NET PROFIT

3. Income Section

The income section of the Profit and Loss Statement shows all the money your business received and from where the money came. You include both cash sales and credit sales in the income section of the Profit and Loss Statement. The entry for cash sales is found by totalling the cash sales column in your books during the period for which you are preparing the statement. The credit sales entry is found by totalling the credit sales column in your books for the same period.

Example

John Masterman totalled the cash sales and credit sales columns in his books, and found that for the period ending November 30, cash sales were $21,031.39 and credit sales were $3,331.01. He had no other income during the year.

The income section of John Masterman's Profit and Loss Statement would look like this:

Income	
Cash Sales	$21,031.39
Credit Sales	3,331.01
Total Income	$24,362.40

If John Masterman had received any other income from doing business, he would have entered the amount of other income under the heading other income. He would then have added other income to cash sales and credit sales to get the total income.

4. Cost of Goods Sold Section

As the name implies, this section looks at how much the goods you sold cost. When you talk about cost of goods, you include any charges you had to pay in order to get the goods to your store.

For the Profit and Loss Statement you are only interested in how much the goods you actually sold during the accounting period cost. During the accounting period you sold goods you had on hand at the beginning of the period, and goods you bought during the period. At the end of the period you will still have an inventory of goods on hand. This inventory will include goods you bought before and during the accounting period. Therefore, in order to find out how much the goods you sold cost, you must know how much inventory you had at the beginning of the period, and how much it cost you to buy goods during the period, and how much inventory you have on hand at the end of the period.

Inventory at the beginning of the period is found by inspecting the inventory figures at the end of the last period.

For example, if the inventory at the end of July 31 was $3,000.00, the inventory for the period beginning August 1 would be $3,000.00. You can find the inventory at the beginning of the period by checking with your last Profit and Loss Statement.

Cost of goods purchased is found by totalling the purchases column and the freight column. Remember, cost of goods includes the purchase price plus the freight charges. This is sometimes called laid-in cost.

The inventory at the end of the period is found by making an inventory count. You count the number of items you have in stock at the end of the period and calculate their total cost value.

The calculations for the cost of goods sold are as follows:

COST OF GOODS SOLD

	Inventory, beginning
plus	Purchases during period
plus	Freight charges for purchases
equals	Cost of goods available for sale
minus	Inventory, ending
equals	COST OF GOODS SOLD

Example

The figures John Masterman used for his cost of goods sold section were:

Inventory, beginning	$12,351.31
Purchases	14,185.00
Freight	2,392.42
Inventory, ending	14,311.29

His cost of goods sold section looked like this:

Cost of Goods Sold

Inventory, beginning	$12,351.31	
Purchases	14,185.00	
Freight	2,392.42	
Cost of Goods Available for Sale	28,928.73	
Less: Inventory, ending	14,311.29	
Cost of Goods Sold		$14,617.44

5. Gross Profit

Gross profit is the amount of money made from the business operation after the goods sold have been paid for.

Gross profit is calculated by subtracting the cost of goods sold from the total income received by the business during the accounting period.

Example
John Masterman's gross profit is:

	Total Income	$24,362.40
minus	Cost of Goods Sold	14,617.44
	GROSS PROFIT	$ 9,744.96

Gross profit represents the money available to meet expenses, such as wages, rent, repairs, etc. and the profit you wish to earn.

John Masterman's books show a gross profit of $9,744.96. He must use this to pay his expenses and earn a profit for himself.

Many times gross profit is stated as gross margin. Gross margin is the percentage of gross profit to income.

$$\text{GROSS MARGIN} = \frac{\text{GROSS PROFIT}}{\text{INCOME}} \times 100$$

John Masterman's gross margin is:

$$\text{Gross Margin} = \frac{\$\ 9,744.96}{\$24,362.40}$$

$$\text{Gross Margin} = \underline{\underline{40\%}}$$

6. Expenses

An expense is money paid out in order to make the business operate. Expenses tell you how much it costs to sell your goods and run your business.

Some expenses are:

a. Employee net pay
b. Employee deductions
c. Employer C.P.P. and U.I.C.

d. Supplies, postage, stationery
e. Light, heat, water
f. Interest
g. Bank charges
h. Rent
i. Repairs and Maintenance
j. Delivery and travel expenses
k. Telephone
l. Accounting and legal
m. Advertising
n. Taxes, licences, and fees
o. Laundry and cleaning
p. Bad debt expense
q. Depreciation.

The amount of each of these expenses is found in your books. Bad debt expense and depreciation are non-cash expenses which are calculated at the end of each accounting period.

7. Net Profit

Net Profit = Gross Profit - Expenses

Net profit is the amount of money your business makes after paying for the goods it sold and the costs of selling these goods. From the net profit you can buy new equipment, pay off your loans, expand your business, and pay yourself.

Taxes are paid on net profit only.

Example
If John Masterman's expenses were $4,936.17, his net profit would be:

	Gross Profit	$9,744.96
minus	Expenses	4,936.17
	Net Profit	$4,808.79

8. Final Form of Profit and Loss Statement

The Profit and Loss Statement appears on the following page.

A list of expenses is shown below:

a.	Employer C.P.P.	$ 169.20
b.	Supplies, postage, stationery	231.61
c.	Light, heat, water	931.43
d.	Interest	57.63
e.	Rent	1,800.00
f.	Repairs and maintenance	501.33
g.	Telephone	157.31
h.	Other	87.66
i.	Bad debt expense	100.00
j.	Depreciation	900.00
	Total Expenses	$4,936.17

John Masterman's Store
Profit and Loss Statement
for period ending November 30, 19__

Income		
Cash Sales	$21,031.39	
Credit Sales	3,331.01	
Total Income		$24,362.40
Cost of Goods Sold		
Inventory, beginning	12,351.31	
Purchases	14,185.00	
Freight	2,392.42	
Cost of Goods Available for Sale	28,928.73	
Less: Inventory, ending	14,311.29	
Cost of Goods Sold		14,617.44
Gross Profit		$ 9,744.96
Total Expenses		4,936.17
Net Profit		$ 4,808.79

5. Ask: "Where does the businessman get information for the Profit and Loss Statement?" Discuss.

Category	Source
Cash Sales	Cash Sales Ledger
Credit Sales	Credit Sales Ledger
Inventory, beginning	Previous P & L Statement
Purchases	Purchases Ledger
Freight	Freight Ledger
Inventory, ending	Present Inventory Sheets
Expenses	Expense Ledger

6. Have the students list the major categories of a Balance Sheet, and state how they decide what items go into these categories.

Category

Assets - things the business owns

a. Current Assets: Assets which will be used up within one year.
b. Fixed Assets: Assets needed to operate the business but are not normally sold.

Liabilities - what the business owes

a. Current Liabilities: Liabilities payable within one year.
b. Long-Term Liabilities: Liabilities owed but not due within the coming year.

Owner's Worth - the amount of money the business owes to the owner.

7. Read and discuss Sections 9 to 13 of the Readings with the students.

9. The Balance Sheet

The second major financial statement is the Balance Sheet. The Balance Sheet tells you:

a. What the business owns
b. What the business owes
c. How much you have invested in the business.

10. Assets

Assets, which are usually listed first on a Balance Sheet, are divided into two classes: current assets and fixed assets.

Everything the business owns is either a current asset or a fixed asset. The way to put each asset of your business into one of these classes is to see how easy it is to change the asset into cash.

a. Current assets are those things a business owns that can be changed into cash within a year. They also include assets that will be used up within the next year. Current assets are listed in order of liquidity (ease of changing the assets into cash).

   (1) Cash on hand is money which is kept in the till. It is money owned by the business.

   (2) Cash in bank or credit union is money which the business has in its account at a bank or credit union.

   (3) Shares in credit union is the value of the shares the business has in a credit union.

   (4) Accounts receivable is the money that credit customers owe the business. Also included here is money owed the business from loans and from the sale of assets.

   Generally you divide the accounts receivable section into two parts:

   (a) trade: credit customers
   (b) other: sale of assets, loans, etc.

   (5) Inventory (at cost) is the value of the inventory of goods the business has for sale and the value of the goods used to operate the business. The inventory is valued at cost price because this is how much it would cost to replace it.

   (6) Prepaid expenses are expenses that a business pays in advance for services it will use sometime during the next year. Because you have paid for these expenses, they are owned by your business and are there for your business's use. You have traded one asset for another; cash is paid out in order that the business receives the service during the coming year. An example of this is prepaid insurance policies.

b. Fixed Assets
Fixed assets are land, buildings, and equipment.

Normally these things are not sold, but they are needed for the business to operate. These things are bought for the service they give. For example, land is bought so that you have some place on which to locate your buildings; buildings are bought or built so that you have some place in which to do business; and equipment is bought so that you can sell to and provide service to customers.

When you account for fixed assets you must keep track of depreciation. Remember, depreciation is an expense charged for using an asset. Allowance is made for reduction in value of property through wear and tear. The amount that is deducted is referred to as depreciation. Therefore, you value these assets at their cost less accumulated depreciation. Valuing assets this way shows the original cost of the asset and the estimated amount of useful life left. This is called Book Value. All fixed assets except land are either depreciated or depleted. Fixed assets would appear on the Balance Sheet as follows:

Information

Original cost of building	$1,500.00
Accumulated Depreciation to date	500.00

Appears on Balance Sheet

Building	$1,500.00	
Less: Accumulated Depreciation	500.00	$1,000.00

11. Liabilities

Liabilities are what you owe. They are separated into two classes. One class is called current liabilities. The other class is called long-term liabilities.

a. Current Liabilities
Like current assets, current liabilities have a time period of one year. These liabilities are the ones that must be paid by the end of the next year.

Current liabilities are bank overdrafts and outstanding cheques, bank loans, and accounts payable.

(1) Bank overdraft and outstanding cheques - this is the amount of money you owe a bank or credit union if you have an overdraft. Outstanding cheques are

cheques you have written but which have not yet been charged against your account.

(2) Bank Loans - the amount of the loans that are due within the coming year. For example, if you had a loan with payment of $500.00 due in the coming year, you would put the $500.00 into this part of the Balance Sheet.

(3) Accounts Payable - there are many different types of accounts payable which are listed in this part of the Balance Sheet:

(a) Trade Accounts Payable - the amount of money you owe to your suppliers.

(b) Wages Payable - many times the date you make up the Balance Sheet does not come on a pay day. You owe your employees wages from the date of the last pay day to the date of the Balance Sheet.

(c) Employee U.I.C., C.P.P., and Income Tax Payable - the money you would have to deduct from the employee's gross wages from the date of the last pay day to the date of the Balance Sheet.

(d) Other - any other bills (you have not paid) for goods and/or services already received.

b. Long-Term Liabilities

These liabilities are what you owe but you do not need to pay them within the coming year.

(1) Loans Payable - the amount of loans from banks, credit unions or from other services which are payable sometime after the coming year.

12. Net Worth (Owner's Worth)

This last part of the Balance Sheet shows how much you or your partners or shareholders have invested in the business. There are three parts: balance beginning year, current profit, and year's drawings.

To calculate this section you use the net worth ending figure from last year's Balance Sheet as the balance beginning year for the new statement. You add to this the net profit, after taxes, calculated in this year's Profit and Loss Statement. Then you deduct the amount of money that you or your partner have drawn out of the business during the year.

NET WORTH SECTION

	NET WORTH BEGINNING
plus	NET PROFIT FROM PRESENT PERIOD
less	OWNER'S DRAWINGS
equals	NET WORTH, ENDING

Balance Sheet
as at ______________

Assets

Current Assets			
Cash on Hand		-----	
Cash in Bank/Credit Union		-----	
Credit Union Shares		-----	
Accounts Receivable			
Trade	----		
Other	----		
Inventory at Cost		-----	
Prepaid Expense		-----	
Total Current Assets			------
Fixed Assets			
Land		-----	
Buildings	----		
Less Accumulated Depreciation	----	-----	
Fixtures & Equipment	----		
Less Accumulated Depreciation	----	-----	
Delivery Equipment	----		
Less Accumulated Depreciation	----	-----	
Total Fixed Assets			------
Total Assets			══

Liabilities and Owner's Worth

Liabilities

Current Liabilities

Bank Overdraft/Outstanding cheques	-----	
Loans	-----	
Accounts Payable		
Trade	-----	
Other	-----	
Total Current Liabilities		------

Long-Term Liabilities

Loans Payable: Bank/Credit Union	-----	
Loans Payable: Government	-----	
Other	-----	
Total Long-Term Liabilities		------
Total Liabilities		

Owner's Worth

Balance Beginning Year	-----	
Add Current Profit		
Balance	-----	
Deduct Year's Drawings	-----	
Total Owner's Worth		
Total Liabilities and Owner's Worth		

13. Summary

Financial information which is available in good form and at the proper times is essential for effective management. Management must at all times be aware of the financial conditions which confront the business, so that no actions are taken which could result in losses to the business.

Financial analysis primarily involves two types of statements: the Profit and Loss Statement and the Balance Sheet.

In this lesson you saw how to prepare detailed financial statements. In later lessons you will learn how to analyze these statements, and use them to plan for the future activities of the business.

8. Ask: "Where does the businessman get information for the Balance Sheet?" Discuss.

Category	Source
Cash on Hand	Cash Ledger
Bank	Bank Ledger
Credit Union Shares	Credit Union Ledger
Accounts Receivable	Accounts Receivable Ledger
Inventory	Inventory Sheets
Land	Asset Card
Buildings	Asset Card
Fixtures & Equipment	Asset Card
Delivery Equipment	Asset Card
Depreciation	Asset Card
Bank Overdraft	Bank Reconciliation
Outstanding Cheques	Bank Reconciliation
Accounts Payable	Accounts Payable Ledger
Loans Payable	Loan Ledger
Owner's Worth	
Balance Beginning Year	Last Balance Sheet
Current Profit	Profit and Loss Statement
Year's Drawings	Owner's Drawings Ledger

Indicator

9. Hand out case FAB31-1, 'Mic Mac Market". Have the students prepare the required statements using the information given in the case.

FAB31

ACCOUNT NO. ____________ SHEET NO. ____________
NAME CASH TERMS ____________
ADDRESS ____________ CREDIT LIMIT ____________

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	Dr or Cr	✓	BALANCE
Nov	30							Dr	✓	30657
Dec	31			✓	242682	✓	105810	Dr	✓	167529

ACCOUNT NO. ____________ SHEET NO. ____________
NAME BANK TERMS ____________
ADDRESS ____________ CREDIT LIMIT ____________

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	Dr or Cr	✓	BALANCE
Nov	30							Dr	✓	901250
Dec	31			✓	100000		293259	Dr	✓	707991

ACCOUNT NO. ____________ SHEET NO. ____________
NAME CASH SALES TERMS ____________
ADDRESS ____________ CREDIT LIMIT ____________

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	Dr or Cr	✓	BALANCE
Nov	30							Cr	✓	4618102
Dec	31					✓	188103	Cr	✓	4806205

ACCOUNT NO. ____________ SHEET NO. ____________
NAME CREDIT SALES TERMS ____________
ADDRESS ____________ CREDIT LIMIT ____________

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	Dr or Cr	✓	BALANCE
Nov	30							Cr	✓	422268
Dec	31					✓	39005	Cr	✓	461273

ACCOUNT NO. ____________ SHEET NO. ____________
NAME SALES TAX TERMS ____________
ADDRESS ____________ CREDIT LIMIT ____________

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	Dr or Cr	✓	BALANCE
Nov	30							Cr	✓	15655
Dec	31					✓	9600	Cr	✓	25255

FAB31

ACCOUNT NO. ____________ SHEET NO. ____________
NAME ACCOUNTS RECEIVABLE TERMS ____________
ADDRESS ____________ CREDIT LIMIT ____________

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	Dr or Cr	✓	BALANCE
Nov	30							Dr	✓	221031
Dec	31			✓	41135	✓	90409	Dr	✓	171757

ACCOUNT NO. ____________ SHEET NO. ____________
NAME LOANS TERMS ____________
ADDRESS ____________ CREDIT LIMIT ____________

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	Dr or Cr	✓	BALANCE
Nov	30							Cr	✓	1890000
Dec	31			✓	10000			Cr	✓	1880000

ACCOUNT NO. ____________ SHEET NO. ____________
NAME INTEREST and BANK CHARGES TERMS ____________
ADDRESS ____________ CREDIT LIMIT ____________

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	Dr or Cr	✓	BALANCE
Nov	30							Dr	✓	8250
Dec	31			✓	1304			Dr	✓	9554

ACCOUNT NO. ____________ SHEET NO. ____________
NAME ACCOUNTS PAYABLE TERMS ____________
ADDRESS ____________ CREDIT LIMIT ____________

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	Dr or Cr	✓	BALANCE
Nov	30							Cr	✓	338581
Dec	31			✓	137430	✓	176144	Cr	✓	377295

ACCOUNT NO. ____________ SHEET NO. ____________
NAME FIXED ASSETS TERMS ____________
ADDRESS ____________ CREDIT LIMIT ____________

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	Dr or Cr	✓	BALANCE
Nov	30							Dr	✓	1500000
Dec	31					✓	150000	Dr	✓	1350000

FAB31

ACCOUNT NO.
NAME PURCHASES
ADDRESS
SHEET NO.
TERMS
CREDIT LIMIT

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR CR	✓	BALANCE
Nov	30							Dr	✓	3169 15
Dec	31			✓	190 00			Dr	✓	3359 15

ACCOUNT NO.
NAME FREIGHT
ADDRESS
SHEET NO.
TERMS
CREDIT LIMIT

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR CR	✓	BALANCE
Nov	30							Dr	✓	1576 93
Dec	31			✓	168 50			Dr	✓	1745 43

ACCOUNT NO.
NAME OWNER'S DRAWINGS
ADDRESS
SHEET NO.
TERMS
CREDIT LIMIT

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR CR	✓	BALANCE
Nov	30							Dr	✓	5670 00
Dec	31			✓	300 00			Dr	✓	5970 00

ACCOUNT NO.
NAME EMPLOYEE WAGES (NET)
ADDRESS
SHEET NO.
TERMS
CREDIT LIMIT

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR CR	✓	BALANCE
Nov	30							Dr	✓	1870 00
Dec	31			✓	340 00			Dr	✓	2210 00

ACCOUNT NO.
NAME EMPLOYEE INCOME TAX
ADDRESS
SHEET NO.
TERMS
CREDIT LIMIT

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR CR	✓	BALANCE
Nov	30							Dr	✓	162 00
Dec	31			✓	29 50			Dr	✓	191 50

FAB31

ACCOUNT NO.
SHEET NO.
NAME EMPLOYEE CPP-UIC
TERMS
ADDRESS
CREDIT LIMIT

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR or CR	✓	BALANCE
Nov	30							Dr	✓	5346
Dec	31			✓	972			Dr	✓	6318

ACCOUNT NO.
SHEET NO.
NAME EMPLOYER CPP-UIC
TERMS
ADDRESS
CREDIT LIMIT

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR or CR	✓	BALANCE
Nov	30							Dr	✓	5346
Dec	31			✓	972			Dr	✓	6318

ACCOUNT NO.
SHEET NO.
NAME OTHER RECEIPTS
TERMS
ADDRESS
CREDIT LIMIT

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR or CR	✓	BALANCE
Nov	30							Cr	✓	1626

ACCOUNT NO.
SHEET NO.
NAME POSTAGE, SUPPLIES, STATIONARY
TERMS
ADDRESS
CREDIT LIMIT

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR or CR	✓	BALANCE
Nov	30							Dr	✓	67936
Dec	31			✓	2135			Dr	✓	70071

ACCOUNT NO.
SHEET NO.
NAME LIGHT, HEAT, WATER
TERMS
ADDRESS
CREDIT LIMIT

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR or CR	✓	BALANCE
Nov	30							Dr	✓	28317
Dec	31			✓	2675			Dr	✓	30992

FAB31

ACCOUNT NO. ______ SHEET NO. ______
NAME RENT TERMS ______
ADDRESS ______ CREDIT LIMIT ______

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR or CR	✓	BALANCE
Nov	30							Dr	✓	2805 00
Dec	31			✓	255 00			Dr	✓	3060 00

ACCOUNT NO. ______ SHEET NO. ______
NAME REPAIRS TERMS ______
ADDRESS ______ CREDIT LIMIT ______

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR or CR	✓	BALANCE
Nov	30							Dr	✓	375 00
Dec	31			✓	31 75			Dr	✓	406 75

ACCOUNT NO. ______ SHEET NO. ______
NAME DELIVERY, TRAVEL TERMS ______
ADDRESS ______ CREDIT LIMIT ______

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR or CR	✓	BALANCE
Nov	30							Dr	✓	180 00

ACCOUNT NO. ______ SHEET NO. ______
NAME TELEPHONE TERMS ______
ADDRESS ______ CREDIT LIMIT ______

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR or CR	✓	BALANCE
Nov	30							Dr	✓	183 91
Dec	31			✓	22 50			Dr	✓	206 41

ACCOUNT NO. ______ SHEET NO. ______
NAME ACCOUNTING, LEGAL TERMS ______
ADDRESS ______ CREDIT LIMIT ______

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR or CR	✓	BALANCE
Nov	30							Dr	✓	65 00

FAB31

ACCOUNT NO.
NAME TAXES, LICENCES, FEES
ADDRESS
SHEET NO.
TERMS
CREDIT LIMIT

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR or CR	✓	BALANCE
Nov	30							Dr	✓	295 00

ACCOUNT NO.
NAME ADVERTISING.
ADDRESS
SHEET NO.
TERMS
CREDIT LIMIT

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR or CR	✓	BALANCE
Nov	30							Dr	✓	305 00
Dec	31			✓	150 00			Dr	✓	455 00

ACCOUNT NO.
NAME MISCELLANEOUS PAYOUTS
ADDRESS
SHEET NO.
TERMS
CREDIT LIMIT

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR or CR	✓	BALANCE
Nov	30								✓	-0-

ACCOUNT NO.
NAME BAD DEBT EXPENSES
ADDRESS
SHEET NO.
TERMS
CREDIT LIMIT

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR or CR	✓	BALANCE
DEC	31			✓	433 00			Dr	✓	433 00

ACCOUNT NO.
NAME DEPRECIATION EXPENSES
ADDRESS
SHEET NO.
TERMS
CREDIT LIMIT

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR or CR	✓	BALANCE
Dec	31			✓	1500 00			Dr	✓	1500 00

FAB31

Mic Mac Market
Profit and Loss Statement
For year ending December 31, 1971

Income		
Cash Sales	$48,062.05	
Credit Sales	4,612.73	
Other	16.26	
Total Income		$52,691.04
Cost of Goods Sold		
Inventory, beginning	-0-	
Purchases	33,593.15	
Freight	1,745.43	
Cost of Goods Available for Sale	35,338.58	
Less: Inventory, ending	2,103.92	
Cost of Goods Sold		33,234.66
Gross Profit		$19,456.38
Expenses*		10,235.19
Net Profit		$ 9,221.19

*Expenses (listed next page)

FAB31

Expenses

Employee Wages	$ 2,210.00
Employee Income Tax	191.50
Employee C.P.P. - U.I.C.	63.18
Employer C.P.P. - U.I.C.	63.18
Postage, Supplies, Stationery	700.71
Light, Heat, Water	309.92
Rent	3,060.00
Repairs	406.75
Delivery	180.00
Telephone	206.41
Interest & Service Charges	95.54
Accounting, Legal	65.00
Taxes, Licences, Fees	295.00
Advertising	455.00
Depreciation	1,500.00
Bad Debt	433.00
Total Expenses	$10,235.19

Mic Mac Market
Balance Sheet
as of December 31, 1971

Assets			Liabilities and Owner's Worth		
Current Assets			Current Liabilities		
Cash		$ 1,675.29	Sales Tax		$ 252.55
Bank		7,079.91	Accounts Payable		3,772.95
Accounts Receivable		1,717.54			
Inventory, Dec 31/71		2,103.92	Total Current Liabilities		4,025.50
Total Current Assets		$12,576.69			
			Long-Term Liabilities		
Fixed Assets			Loan		18,800.00
Assets	$15,000.00		Total Liabilities		22,825.50
Less: Accumulated Depreciation	1,500.00				
			Owner's Worth		
Total Fixed Assets		13,500.00			
			Balance, beginning	-0-	
			Current Profit	$9,221.19	
			Less: Year's Drawings	5,970.00	
			Net Owner's Worth		3,251.19
Total Assets		$26,076.69	Total Liabilities & Net Worth		$26,076.69

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB31 PREPARING FINANCIAL STATEMENTS

CASE FAB31 - 1

MIC MAC MARKET

On January 1, 1971, John LaRoche began operating the Mic Mac Market. It is now January 3, 1972, and John wishes to know how well the business has done in its first year of operation.

John took inventory on December 31 and found that the total cost value of his stock was $2,103.92. He then collected his Ledgers and his Synoptic Journal and prepared to make a Profit and Loss Statement and a Balance Sheet as of December 31, 1971.

First John closed off his Synoptic Journal for the month of December. He made adjustments to bad debts expense for $433.00 and to depreciation expense for $1,500.00. He then posted the closed-off totals in the Synoptic Journal to the proper Ledgers.

John prepared a Bank Reconciliation Statement from the bank statement to December 31, sent to him by his bank. John now had all the information he needed.

INSTRUCTIONS

1. Set up Ledger sheets for each account, and post the closed-off totals from the Synoptic Journal to these Ledger sheets.
2. Prepare a Profit and Loss Statement and a Balance Sheet for the Mic Mac Market as of December 31, 1971. The balances in the Ledgers on November 30, 1971; the Bank Reconciliation Statement; and the closed-off Synoptic Journal for the month of December, 1971, are shown on the following pages.

FAB31

MIC MAC MARKET

BANK RECONCILIATION STATEMENT

As of December 31, 19__

Balance Statement December 31, 1971			$8,070.23
Less:	Outstanding Cheques		
	Cheque # 129	$627.35	
	Cheque # 134	107.97	
	Cheque # 135	255.00	
	Total Outstanding Cheques		990.32
	Adjusted Bank Balance		$7,079.91
Balance Books December 31, 1971			$7,085.45
Less:	Service Charge		5.54
	Adjusted Book Balance		$7,079.91

FAB31

Ledger Balances as of November 30, 1971

Ledger Accounts	Debit Balance	Credit Balance
Cash	$ 306.57	
Bank	9,012.50	
Cash Sales		$ 46,181.02
Credit Sales		4,222.68
Sales Tax		156.55
Accounts Receivable	2,210.31	
Loans		18,900.00
Interest	82.50	
Accounts Payable		3,385.81
Assets	15,000.00	
Purchases	31,693.15	
Freight	1,576.93	
Owner's Drawings	5,670.00	
Employee Wages (net)	1,870.00	
Employee Income Tax	162.00	
Employee C.P.P. & U.I.C.	53.46	
Employer C.P.P. & U.I.C.	53.46	
Other Receipts		16.26
Postage, Supplies, Stationery	679.36	
Light, Heat, Water	283.17	
Rent	2,805.00	
Repairs	375.00	
Delivery, Travel	180.00	
Telephone	183.91	
Accounting, Legal	65.00	
Taxes, Licences, Fees	295.00	
Advertising	305.00	
Miscellaneous	-0-	-0-
TOTALS	$ 72,862.32	$ 72,862.32

MIC MAC MARKET

SYNOPTIC JOURNAL

Date	Description	BANK		CASH		CASH	Credit	SALES		Accts. Receivable	
		Debit	Credit	Debit	Credit	SALES	SALES	TAX	LOANS	Debit	Credit
1970	FARWARded	100000	194405	122500	103635	92500	32500	5500	(10000)	34000	26000
Dec 28	CASH SALES			37500		35000		2500			
28	Credit SAles						6505	630		7135	
28	Burns cheque #133		37500								
28	Benn's cheque #134		10792								
29	SALes TAX			29000		28500		500			
29	RepAiRS				1675						
29	WAteR				500						
30	CAsh SAles			32573		32103		470			
30	Received on Acct.			21109							21109
30	Rent-cheque #135		25500								
30	Wages-cheque #136		17000								
30	Dept. National Revenue										
30	Drawings-cheque #137		7500								
		100000	292705	242682	105810	188103	39005	9600	(10000)	41135	47109
	Adjusting Entries										
	BANK Charges		554								
Dec 31	Bad Debt										43300
31	Depreciation Expense										
		180000	293259	242682	105810	188103	39005	9600	(10000)	41135	90409

FAB31

MIC MAC MARKET
Continued

SYNOPTIC JOURNAL

Other Receipts	Purchases	Freight	Accounts Payable		Assets	Owner's Drawings	Net Wages	Employee Income Tax	Employee CPP-UIC	Employer CPP-UIC	Supplies Postage Stationery
			Debit	Credit							
	190000	16850	89133	173697		22500	17000	1425	486	486	2135
			37500								
			10797								
							17000				
				2447				1425	486	486	
						7500					
	190000	16850	137430	176144		30000	34000	2850	972	972	2135
					(15000)						
	190000	16850	137430	176144	(15000)	30000	34000	2850	972	972	2135

CASE

MIC MAC MARKET
Continued

SYNOPTIC JOURNAL

Light Heat Water	Interest	Rent	Repairs	Delivery Travel	Telephone	Accounting Legal	Taxes Licences Fees	Advertising	Payout Mise.	Bad Debt	Depreciation
2175	750		1500		2250			15000			
			1675								
500											
		25500									
2675	750	25500	3175		2250			15000			
	550										
										45300	
											150000
2675	1300	25500	3175		2250			15000		45300	150000

SUBJECT MANAGEMENT PROCESS

LESSON MP13 THE CONTROLLING FUNCTION

INSTRUCTOR'S GUIDE

OVERVIEW

Students will now have a good idea of the planning, organizing and directing functions of business. In this lesson students are introduced to the controlling function. The lesson sets out the principles of control rather than the actual mechanics of control. The mechanics of control are contained in the lessons in the different subjects.

Since control is impossible without budgets or standards which have been previously planned, this lesson is also an opportunity to review the importance of planning.

The instructor may have to draw considerably on his own experience to illustrate the areas of control, which will not be studied in detail until future lessons. The students present knowledge of bookkeeping should be sufficient to allow them to understand the nature of control. If students can grasp the idea of control now, they should learn more from future lessons.

OBJECTIVE

The students will outline the control techniques which could be used by a business.

REFERENCE MATERIAL FOR INSTRUCTOR

1. Keith, Lymen A. and Gubellini, Carlo E. Introduction to Business Enterprise. Toronto: McGraw-Hill Book Company of Canada, Ltd., 1971, ch. 13 and 15.
2. Longenecker, Justin G. Principles of Management and Organizational Behavior. Columbus, Ohio: Charles E. Merrill Publishing Co., 1969, ch. 24-26.
3. Sisk, Henry. Principles of Management. Cincinnati: South-Western Publishing Company, 1969, ch. 21-23.
4. Terry, George R. Principles of Management. Homewood, Illinois: Richard D. Irwin, Inc., 1968, ch. 22-26.

RESOURCES REQUIRED

1. Flip chart.

METHODOLOGY

1. Hand out the Readings; read and discuss the Purpose and Introduction.

PURPOSE

The purpose of this lesson is to examine the fourth management function, the controlling function. You will look at the nature of controlling, why controlling is necessary and what the principal areas of control are.

INTRODUCTION

In lesson MP7, "The Planning Function", we discussed the manager's role in preparing plans for the business. These plans affected all areas of the business: profit, sales production and personnel.

In lesson MP11, "The Directing Function", we saw that the manager is responsible for the carrying out of these plans through employees of the business. The manager in a larger business had to delegate to others some of his responsibility and authority.

The controlling function requires the manager to check to see if the business is attaining its objectives in sales, profit, costs and many other areas. The manager must set up methods of comparing the plans to the actual performance of the operation.

Even in a very small business, the manager will need to be in control of the operation. For instance, if a loan were obtained to start the business, the lending agency will be very interested in the performance of the business. A business which is doing well has good potential for the repayment of the loan.

A business which is not performing well financially will require some corrective action to improve its position. It is important that the manager be able to determine how the business is doing compared to the plans he had made.

OBJECTIVE: THE STUDENTS WILL OUTLINE THE CONTROL TECHNIQUES WHICH COULD BE USED BY A BUSINESS.

Stimulus

2. Ask the students what is meant by controlling. Ask them to list ways of controlling a business.

Clarify Problem

3. Discuss the controls listed by the students.
4. Read and discuss Sections 1 and 2 of the Readings.

CONTENT

1. Nature of Controlling

Control is the task of seeing that the business actually performs according to the plans set out. To control it is necessary to know what has happened in the business and how the performance relates to the plans, so that corrective action can be taken if necessary.

Suppose that the plans, projections and budgets made by a business indicated that a profit of $5000.00 was possible.

Suppose however that the actual profit, as determined through good bookkeeping methods, was only $1,000.00.

The difference in profit between the budgeted figure and the actual figure is very important. It says that something went wrong along the way, that the actual performance did not meet the plans.

The controlling function attempts to find the cause of any difference between the plans and the actual performance. Was it due to lower sales? Was the profit margin lower than expected? Were there accounts receivable which could not be collected?

The controlling function involves comparing the actual performance of a business with the plans, determining the cause of any difference, and making the corrections necessary to avoid a similar situation in the future.

2. Why is Control Necessary?

Control is necessary to assure the manager that the business is moving ahead as intended. Without control the manager would not know how the business is doing or where it is headed. Without plans and control, the business can lead in any direction which curcumstances send it. This perhaps explains why so many businesses fail.

Control assumes there are plans or standards to which the actual business operation is compared. If there is some difference the reason is checked out and the necessary changes are made to correct the situation.

The most common types of control which managers use are control of sales, production, personnel, purchases and inventory, and profit.

5. Ask the students how they would control the sales of a business. Encourage them to draw on previous lessons to outline a method of checking on sales.

6. Read Section 3 of the Readings. Compare with the ideas provided by the students.

3. Control of Sales

Sales are the source of revenue for many retail businesses. Some businesses feel that the only control needed is "sell as much as possible". This idea says little about whether the person in charge of sales should adopt new techniques or new approaches. It does not answer the question: "Is the sales organization doing a good job?" A poor sales organization may sell as much as possible and still not be doing a good job.

It is important that every business have at the begining of each year a realistic plan or budget setting out the expected sales for the year. This becomes the basis for determining the expected revenue.

Some managers feel that it is very difficult to predict sales, because there are so many uncertain factors, especially for a new business.

Control of sales assumes a projection of expected sales for a certain period. The control is exercised when a comparison is made of the actual sales to the figure which was set as an objective. If this is not reached, the goal may have been set too high. However, a manager should not assume the target was too high until an analysis of the marketing program is made. A close look at the advertising, promotion, lay-out and display used, and selling ability of sales people, should be made to see if these areas are as good as they might be. The manager should also look at whether the business is providing the right services or projects at the right prices.

This type of analysis can provide very useful information to explain why a business is not selling as well as might be expected.

7. Follow the same procedure for Sections 4, 5, 6 and 7. Each time, discuss with the students the methods which they would use in controlling production, personnel, purchase and inventory and profit. Compare the Readings to the students' ideas, and illustrate further if necessary.

4. Control of Production

When a business manufactures a product, the sale of this product provides its revenue. The business will have to set certain goals for its production in terms of quantity, quality and cost.

Since there must be a certain volume of production to meet the revenue expected, the control of production from the point of view of quantity is important.

[illegible] since it is possible to produce a large quantity but a low quality product, control in the area of quality is also necessary. A low quality product can be very expensive for a business since it may bring a lower price and in some cases, no price at all. The business may be left with the cost of producing a product which cannot be sold or can only be sold at a lower price.

Production costs must be carefully controlled to enable the business to supply a product at the right price, one which allows a reasonable profit.

Inefficiency of employees, wastage or spoilage of materials, poor product design, poor lay-out of plant, as well as many other factors can affect the cost of production.

5. Control of Personnel

In many businesses, labour is an important part of the costs. If labour costs climb too high, the business will have difficulty making ends meet. The manager must be conscious of controlling labour costs as well as controlling employee morale through good human relations and controlling employee efficiency through the proper selection, training and discipline of the employees.

6. Control of Purchases and Inventory

The manager must exercise close control so that the purchases and inventory of the business meet the needs of customers. Otherwise, money may be tied up in inventory that does not move rapidly and there may not be enough money for items which are required by the customers.

Control is essential to avoid the problems of double ordering, purchasing the wrong type of stock, or paying prices which are not favourable.

7. Control of Profit

Perhaps the controlling function is best known in the profit area. A manager will plan a certain level of profit for the year; he must check whether or not the business is reaching this level. The check may be made once a month, or two or three times a year to see if the business has made its share of profit for a particular part of the year. If controlling procedures are done each month, the business would be expected to produce this share of profit every month unless the business is seasonal.

In controlling profit, the manager must check both revenue and costs. The revenue control is similar to the control of sales which we looked at earlier in this lesson. The control of costs means a detailed comparison of the actual costs to the expected or projected costs. If some costs are out of line, the manager must check the reasons for the differences.

The basic method of control is the budget which will be studied in lesson FAB39. The budget sets out the expected revenue and expenses for a period. If the actual figures differ very much, the manager must look into the reasons.

8. Read Section 8.

8. Summary

Control requires some work, but is a very valuable tool in determining how well the business is doing. Without control, the manager will never know whether or not the business is moving towards its objectives.

Indicator

9. Have the students outline the controls necessary in the outfitting camp discussed in the planning, organizing, and directing lessons. The camp has food, lodging, and guide services as well as a store.

   a. Have the students list the areas which need control (public relations, food quality, house-keeping, cleanliness, finances, etc.).

   b. Then have them discuss how the manager would go about the job of controlling to determine if the business reaches its objectives. Students should consider each department, and consider control of sales, personnel, purchases and inventory and profit for each.

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB32 YEAR-END REPORTING

INSTRUCTOR'S GUIDE

OVERVIEW

At the end of each year every employer is required to submit reports dealing with income tax, C.P.P. and unemployment insurance contributions to the federal government, and Workmen's Compensation to the provincial government.

The instructor should obtain the necessary forms and instruction booklets and study these carefully prior to giving the lesson. Sufficient copies should be available for students to read and study.

The instructor should contact the Workmen's Compensation Board in the province or territory in which the course is being taught, as the rates and forms differ from area to area.

Below is a list of addresses of the District Taxation Offices, Department of National Revenue:

Taxation Data Centre
Ottawa, Ontario
P.O. Box 8456 KIG 3L7

Charlottetown, P.E.I.
Queen and Richmond Streets
Dominion Building

Sydney, Nova Scotia
Dorchester Street
Federal Building

St. John's, Newfoundland
165 Duckworth Street
Sir Humphrey Gilbert Building

Halifax, Nova Scotia
1557 Hollis Street
Ralston Building

Saint John, New Brunswick
Canterbury Street
New Post Office Building

FAB32

Quebec 2, Province of Quebec
165 Dorchester South

Montreal 128, Quebec
305 Dorchester Blvd. West
National Revenue Building

Ottawa, Ontario K1A 0L9
122 Bank Street
Jackson Building

Belleville, Ontario
11 Station Street
New Federal Building

Hamilton, Ontatio
150 Main Street West
National Revenue Building

St. Catharines, Ontario
32-46 Church Street
Federal Building

Windsor, Ontario
1100 University Avenue, West

Thunder Bay, Ontario
201 North May Street
Revenue Building

Regina, Saskatchewan
1955 Smith Street
Income Tax Building

Calgary, Alberta
205 - 8th Avenue South-East
Calgary Public Building

Penticton, British Columbia
251 Nanaimo Avenue West
Federal Building

Victoria, British Columbia
1005 Pandora Avenue

Sherbrooke, Quebec
50 Couture Street
Federal Building

Rouyn, Quebec
11 McQuaig Street East,
Income Tax and U.I.C. Bldg.

Kingston, Ontario
385/387 Princess Street

Toronto 1, Ontario
36 Adelaide Street East
MacKenzie Building

Kitchener, Ontario
166 Frederick Street
National Revenue Building

London, Ontario
388 Dundas Street

Sudbury, Ontario
19 Lisgar Street South
Federal Building

Winnipeg 1, Manitoba
391 York Avenue,
Income Tax Building

Saskatoon, Saskatchewan
306 - 20th Street East
London Building

Edmonton, Alberta
107th Street and 99th Avenue
Federal Public Building

Vancouver 5, British Columbia
1110 West Georgia Street

FAB32

OBJECTIVES

The students will correctly complete:

1. T4-Supplementary (Statement of Remuneration Paid)

2. T4-T4A Summary (Return of Remuneration Paid)

3. Workmen's Compensation Board Employer's Payroll Statement.

RESOURCES REQUIRED

Each student requires:

1. T4-Supplementary (Statement of Remuneration Paid)
2. T4-T4A Summary (Return of Remuneration Paid)
3. Income Tax Deduction at Source Tables
4. Canada Pension Plan and Unemployment Insurance Tables
5. Employer's Unemployment Insurance Guide
6. Employer's Canada Pension Plan Guide
7. Workmen's Compensation Board Employer's Payroll Statement
8. Exercise FAB32-1, "Jonathan Smith"
9. Pay sheets.

METHODOLOGY

1. Hand out the Readings and read the Purpose and Introduction.

PURPOSE

In this lesson you will be introduced to the forms required by the Taxation Department of the federal government and the Workmen's Compensation Board of the provincial government.

INTRODUCTION

In earlier FAB lessons you saw that you are responsible for making deductions during the year on behalf of your employees. At the end of the year you have to give the employee a record of the deductions you have made. This form is called a T4-Supplementary.

You also have to send the Taxation Department a record of all T4 slips you give out. This form is called the T4-T4A Summary. These records are sent to the federal government.

You are also responsible for registering your workmen with the Workmen's Compensation Board. Each January, you will be sent a form you must fill out and return to the provincial government. This is called the employer's payroll statement.

Failure to complete these forms can result in fines, unless your business is exempt from making deductions or paying compensation assessments.

OBJECTIVE 1: THE STUDENTS WILL CORRECTLY COMPLETE A T4-SUPPLEMENTARY (STATEMENT OF REMUNERATION PAID).

Stimulus

2. Ask: "What is a T4 slip?" Discuss.

(A T4 slip is a statement which shows each employee's gross pay earned from the business for which he works. It also shows the total amount of deductions that the employer has taken off that employee's pay cheques.)

Ask: "Who makes out the T4 slip?"

(The employer makes out the T4 slip and gives it to the employee.)

Clarify Problem

3. Hand out T4 slips to each student and review.

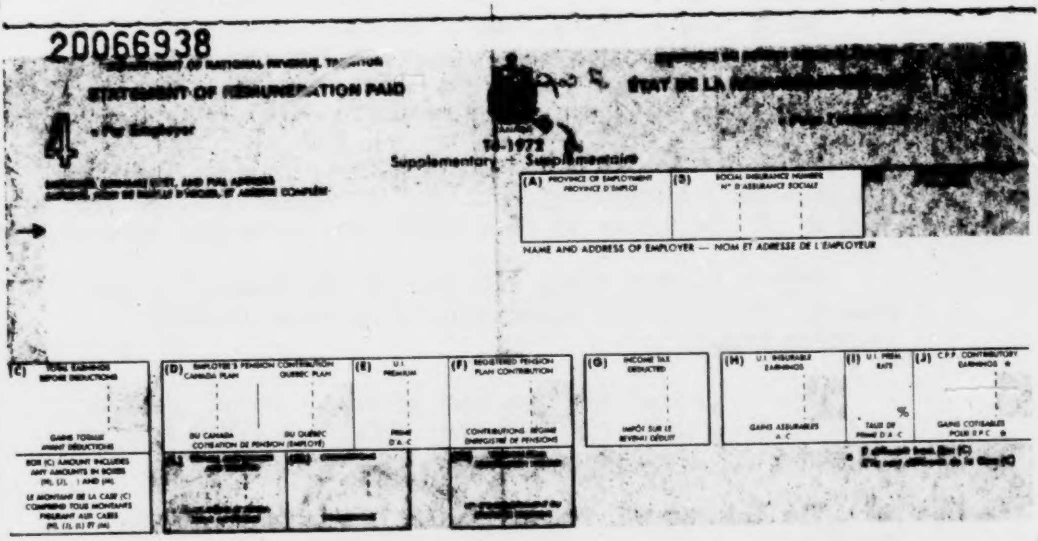
FAB32

Provide Information

4. Read Section 1 of the Readings. Discuss the material to ensure that the students understand the purpose of a T4 slip and that they know how to fill one out correctly. Give students copies of Employer's Canada Pension Plan Guide and Employer's Unemployment Insurance Guide. Review contents with students.

CONTENT

1. The T4-Supplementary (Statement of Remuneration Paid)



20066938

STATEMENT OF REMUNERATION PAID

4

T4-1972

Supplementary — Supplémentaire

(A) PROVINCE OF EMPLOYMENT
PROVINCE D'EMPLOI

(S) SOCIAL INSURANCE NUMBER
N° D'ASSURANCE SOCIALE

NAME AND ADDRESS OF EMPLOYER — NOM ET ADRESSE DE L'EMPLOYEUR

(C) TOTAL EARNINGS BEFORE DEDUCTIONS
GAINS TOTAUX AVANT DÉDUCTIONS

BOX (C) AMOUNT INCLUDES ANY AMOUNTS IN BOXES (H), (J), (L) AND (M).

LE MONTANT DE LA CASE (C) COMPREND TOUS MONTANTS FIGURANT AUX CASES (H), (J), (L) ET (M).

(D) EMPLOYEE'S PENSION CONTRIBUTION — CANADA PLAN — QUEBEC PLAN
COTISATION DE PENSION (EMPLOYÉ) — DU CANADA — DU QUÉBEC

(E) U.I. PREMIUM
PRIME D.A.C.

(F) REGISTERED PENSION PLAN CONTRIBUTION
CONTRIBUTIONS RÉGIME ENREGISTRÉ DE PENSIONS

(G) INCOME TAX DEDUCTED
IMPÔT SUR LE REVENU DÉDUIT

(H) U.I. INSURABLE EARNINGS
GAINS ASSURABLES A.C.

(I) U.I. PREM. RATE
TAUX DE PRIME D.A.C. %

(J) C.P.P. CONTRIBUTORY EARNINGS
GAINS COTISABLES POUR R.P.C.

The T4-Supplementary is a record of the total earnings, total deductions and net pay for each employee during the calendar year (January 1 to December 31).

There are four copies of each statement. The employee is given copies 2 and 3, you keep copy 4 for your records, and copy 1 is sent to the Department of National Revenue, Taxation Branch.

You use the employee's payroll record for the year to fill out the T4-Supplementary.

Suppose that when you closed off the employee's payroll record and totalled the gross pay, deductions and net pay for the year you got the following totals:

Employee: John Stoneman
Address: Yellow Rock
Social Insurance Number: 830 101 300
Total Personal Exemptions: $1,500.00
Wage Per Month: $200.00

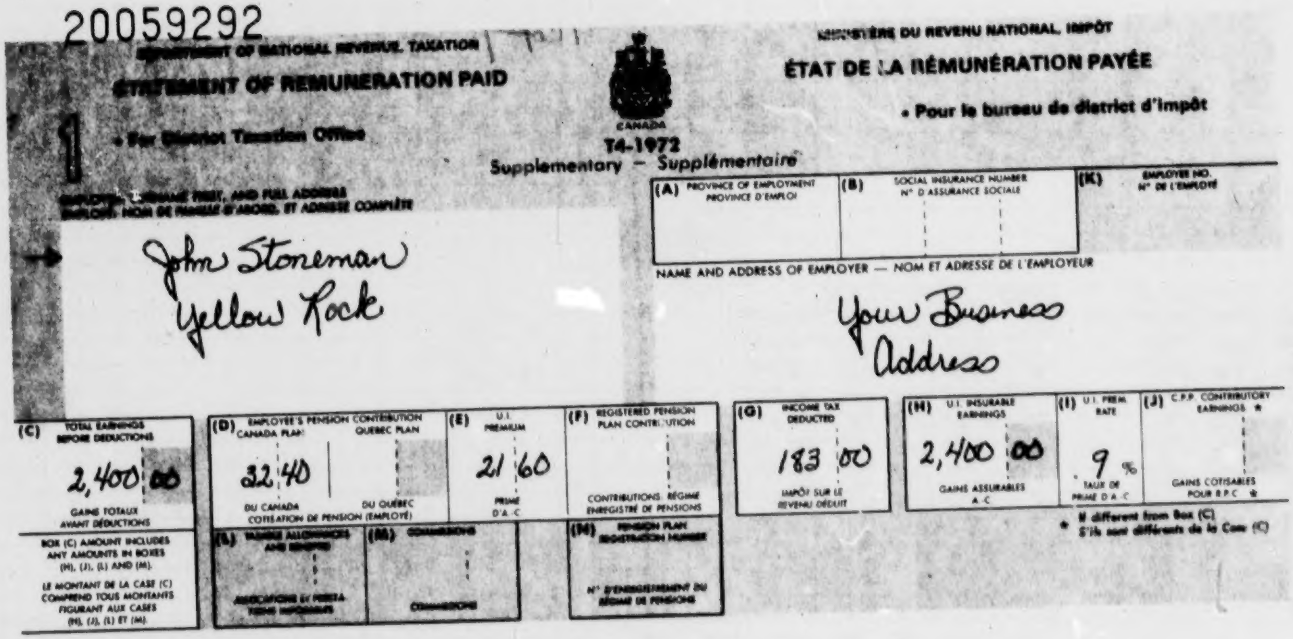
Box A - Province the employee is employed in
Box B - Employee's social insurance number
Box C - Employee's total (gross) earnings
Box D - Total C.P.P. deducted from the employee
Box E - Total Unemployment Insurance deducted
Box G - Total income tax deducted from employee
Box H - Employee's U.I. insurable earnings
Box I - Employee's U.I. premium rate in per cent

After filling in a T4-Supplementary for each employee, you give the employee copies 2 and 3. These T4-slips are used by the employees to file their own income tax returns.

Copy 1 is sent along with the T4-T4A Summary to the nearest office of the Department of National Revenue, Taxation Branch.

Copy 4 is kept for your own records. Do not destroy or throw away these copies. They should be filed away so you can check them if required.

The information is put on the T4-Supplementary as follows:



20059292

DEPARTMENT OF NATIONAL REVENUE, TAXATION

STATEMENT OF REMUNERATION PAID

• For District Taxation Office

CANADA

T4-1972

Supplementary – Supplémentaire

MINISTÈRE DU REVENU NATIONAL, IMPÔT

ÉTAT DE LA RÉMUNÉRATION PAYÉE

• Pour le bureau de district d'impôt

EMPLOYEE: SURNAME FIRST, AND FULL ADDRESS
EMPLOYÉ: NOM DE FAMILLE D'ABORD, ET ADRESSE COMPLÈTE

John Stoneman
Yellow Rock

(A) PROVINCE OF EMPLOYMENT / PROVINCE D'EMPLOI

(B) SOCIAL INSURANCE NUMBER / N° D'ASSURANCE SOCIALE

(K) EMPLOYEE NO. / N° DE L'EMPLOYÉ

NAME AND ADDRESS OF EMPLOYER — NOM ET ADRESSE DE L'EMPLOYEUR

Your Business
Address

(C) TOTAL EARNINGS BEFORE DEDUCTIONS: 2,400 00 / GAINS TOTAUX AVANT DÉDUCTIONS

BOX (C) AMOUNT INCLUDES ANY AMOUNTS IN BOXES (H), (J), (L) AND (M).

LE MONTANT DE LA CASE (C) COMPREND TOUS MONTANTS FIGURANT AUX CASES (H), (J), (L) ET (M).

(D) EMPLOYEE'S PENSION CONTRIBUTION – CANADA PLAN: 32 40 – QUEBEC PLAN / DU CANADA – DU QUÉBEC – COTISATION DE PENSION (EMPLOYÉ)

(E) U.I. PREMIUM: 21 60 / PRIME D'A.-C.

(F) REGISTERED PENSION PLAN CONTRIBUTION / CONTRIBUTIONS RÉGIME ENREGISTRÉ DE PENSIONS

(G) INCOME TAX DEDUCTED: 183 00 / IMPÔT SUR LE REVENU DÉDUIT

(H) U.I. INSURABLE EARNINGS: 2,400 00 / GAINS ASSURABLES A.-C.

(I) U.I. PREM. RATE: .9 % / TAUX DE PRIME D'A.-C.

(J) C.P.P. CONTRIBUTORY EARNINGS ★ / GAINS COTISABLES POUR R.P.C. ★

(L) TAXABLE ALLOWANCES AND BENEFITS / ALLOCATIONS ET PRESTATIONS IMPOSABLES

(M) COMMISSIONS / COMMISSIONS

(N) PENSION PLAN REGISTRATION NUMBER / N° D'ENREGISTREMENT DU RÉGIME DE PENSIONS

★ If different from Box (C)
S'ils sont différents de la Case (C)

Time and Pay Roll Form S-202R

NAME JOHN STONEMAN
ADDRESS YELLOW ROCK

AGE
MALE OR FEMALE MALE
MARRIED OR SINGLE
RECEIVED UNEMPLOYMENT INSURANCE BOOK

SOCIAL INSURANCE NUMBER 830-101-300

DATE COMMENCED WORK 19
DATE TERMINATED 19
DATE LAST HOLIDAY 19

TAX DEDUCTIONS
TOTAL EXEMPTIONS $ 1,500
COLUMN NUMBER

	TIME																TOTAL REGULAR TIME	RATE	TOTAL OVERTIME	RATE	EARNINGS			DEDUCTIONS						AMOUNT PAID	EMPLOYEE'S SIGNATURE
	1 16	2 17	3 18	4 19	5 20	6 21	7 22	8 23	9 24	10 25	11 26	12 27	13 28	14 29	15 30	31					REGULAR	OVERTIME	TOTAL	UNEMP. INS.	C.P.P. DEDUCT	C.P.P. TO DATE	INCOME TAX		TOTAL		
Jan																✓							200.00	1.80	2.70	2.70	15.25		18.67	181.33	John Stoneman
Feb													✓										200.00	1.80	2.70	5.40	15.25		18.67	181.33	John Stoneman
Mar																✓							200.00	1.80	2.70	8.10	15.25		18.67	181.33	John Stoneman
Apr															✓								200.00	1.80	2.70	10.80	15.25		18.67	181.33	John Stoneman
May																✓							200.00	1.80	2.70	13.50	15.25		18.67	181.33	John Stoneman
June															✓								200.00	1.80	2.70	16.20	15.26		18.67	181.33	John Stoneman
July																✓							200.00	1.80	2.70	18.90	15.25		18.67	181.33	John Stoneman
Aug																✓							200.00	1.80	2.70	21.60	15.25		18.67	181.33	John Stoneman
Sept															✓								200.00	1.80	2.70	24.30	15.25		18.67	181.33	John Stoneman
Oct																✓							200.00	1.80	2.70	27.00	15.25		18.67	181.33	John Stoneman
Nov															✓								200.00	1.10	2.70	29.70	15.25		18.67	181.33	John Stoneman
Dec																✓							200.00	1.80	2.70	32.40	15.25		18.67	181.33	John Stoneman
																								21.60	32.40		183.00		224.04	2175.96	

Indicator

5. Hand out Exercise FAB32-1. Have the students complete the instructions, then have them complete T4 slips for Jenny Wade and Jake Smith. Give students copies of Canada Pension Plan and Unemployment Insurance Tables and Income Tax Deductions at Source.

NOTE: Income tax deductions may vary from province to province.

Information that should be on T4 slips:

	C.P.P.	U.I. Prem	Income Tax	Total Earnings
Jenny Wade	27.00	18.96	99.60	2,100.00
Jake Smith	47.58	28.80	382.20	3,250.00

OBJECTIVE 2: THE STUDENTS WILL CORRECTLY COMPLETE A T4-T4A SUMMARY (RETURN OF REMUNERATION PAID).

Stimulus

1. Hand out copies of T4-T4A Summary (Return of Remuneration Paid) to the students.

Clarify Problem

2. Explain to the students that every employer must complete form T4-T4A after they have completed T4 slips for their employees. Briefly explain that the purpose of form T4-T4A is to show the total income tax, employee and employer C.P.P. and unemployment insurance deductions that have been remitted to the Receiver General during the year.

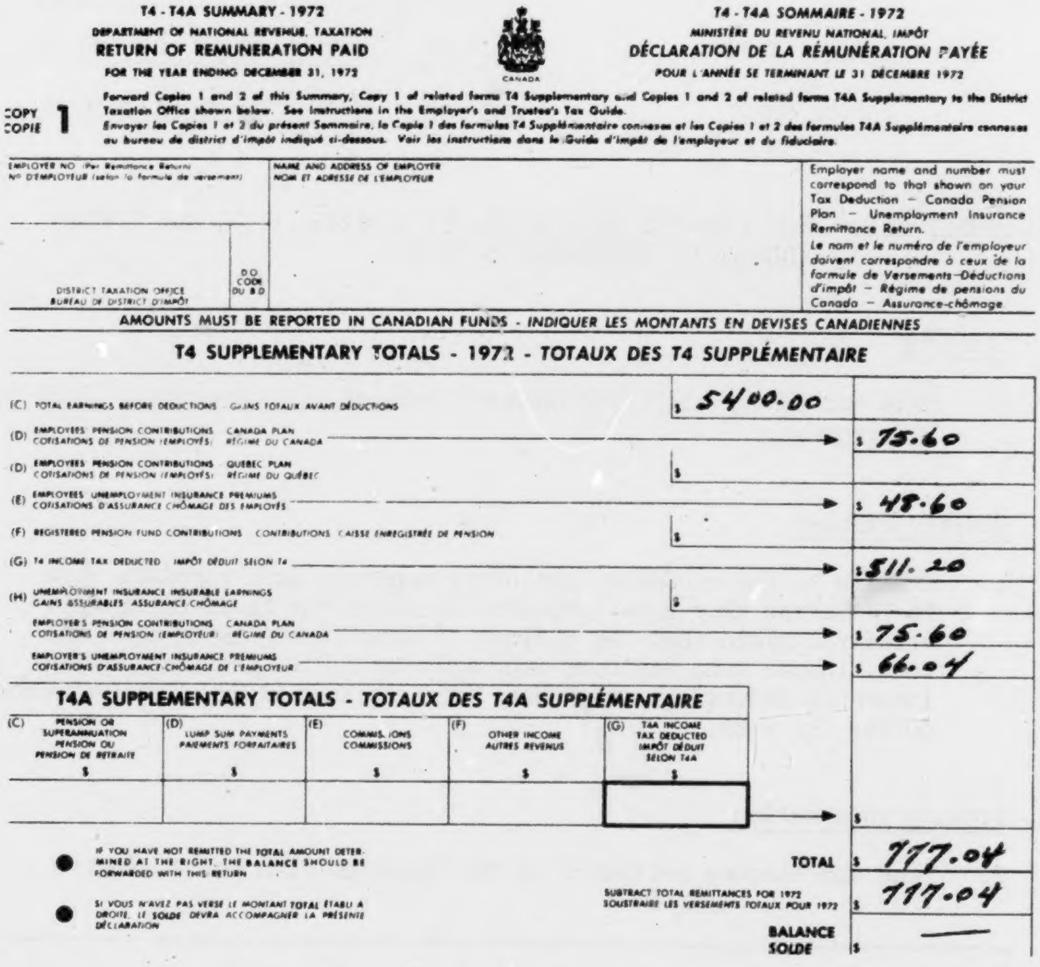
Provide Information

3. Read and discuss Section 2 of the Readings with the students.

2. The T4-T4A Summary (Return of Remuneration Paid)

The T4-T4A Summary shows the total amounts you paid in wages and the total amounts deducted for C.P.P., U.I.C. and income tax from all your employees. The amounts that appear on the T4-T4A Summary (Return of Remuneration Paid) are just the totals of the amounts you entered on the T4-Supplementary statements you made out for each employee.

The T4-T4A Summary on the next page has been completed, using the following information about Martin J. Smith and John Stoneman (from T4-Supplementary statements)



T4 - T4A SUMMARY - 1972
DEPARTMENT OF NATIONAL REVENUE, TAXATION
RETURN OF REMUNERATION PAID
FOR THE YEAR ENDING DECEMBER 31, 1972

CANADA

T4 - T4A SOMMAIRE - 1972
MINISTÈRE DU REVENU NATIONAL, IMPÔT
DÉCLARATION DE LA RÉMUNÉRATION PAYÉE
POUR L'ANNÉE SE TERMINANT LE 31 DÉCEMBRE 1972

COPY
COPIE **1**

Forward Copies 1 and 2 of this Summary, Copy 1 of related forms T4 Supplementary and Copies 1 and 2 of related forms T4A Supplementary to the District Taxation Office shown below. See Instructions in the Employer's and Trustee's Tax Guide.

Envoyer les Copies 1 et 2 du présent Sommaire, la Copie 1 des formules T4 Supplémentaire connexes et les Copies 1 et 2 des formules T4A Supplémentaire connexes au bureau de district d'impôt indiqué ci-dessous. Voir les instructions dans le Guide d'impôt de l'employeur et du fiduciaire.

EMPLOYER NO. (Per Remittance Return) Nº D'EMPLOYEUR (selon la formule de versement)	NAME AND ADDRESS OF EMPLOYER NOM ET ADRESSE DE L'EMPLOYEUR	Employer name and number must correspond to that shown on your Tax Deduction – Canada Pension Plan – Unemployment Insurance Remittance Return. *Le nom et le numéro de l'employeur doivent correspondre à ceux de la formule de Versements–Déductions d'impôt – Régime de pensions du Canada – Assurance-chômage*
DISTRICT TAXATION OFFICE BUREAU DE DISTRICT D'IMPÔT — D.O. CODE / CODE DU B.D.		

AMOUNTS MUST BE REPORTED IN CANADIAN FUNDS - ***INDIQUER LES MONTANTS EN DEVISES CANADIENNES***

T4 SUPPLEMENTARY TOTALS - 1972 - TOTAUX DES T4 SUPPLÉMENTAIRE

(C) TOTAL EARNINGS BEFORE DEDUCTIONS — GAINS TOTAUX AVANT DÉDUCTIONS	$ 5400.00	
(D) EMPLOYEES' PENSION CONTRIBUTIONS — CANADA PLAN COTISATIONS DE PENSION (EMPLOYÉS) — RÉGIME DU CANADA	→	$ 75.60
(D) EMPLOYEES' PENSION CONTRIBUTIONS — QUEBEC PLAN COTISATIONS DE PENSION (EMPLOYÉS) — RÉGIME DU QUÉBEC	$	
(E) EMPLOYEES' UNEMPLOYMENT INSURANCE PREMIUMS COTISATIONS D'ASSURANCE CHÔMAGE DES EMPLOYÉS	→	$ 48.60
(F) REGISTERED PENSION FUND CONTRIBUTIONS — CONTRIBUTIONS CAISSE ENREGISTRÉE DE PENSION	$	
(G) T4 INCOME TAX DEDUCTED — IMPÔT DÉDUIT SELON T4	→	$ 511.20
(H) UNEMPLOYMENT INSURANCE INSURABLE EARNINGS GAINS ASSURABLES ASSURANCE-CHÔMAGE	$	
EMPLOYER'S PENSION CONTRIBUTIONS — CANADA PLAN COTISATIONS DE PENSION (EMPLOYEUR) — RÉGIME DU CANADA	→	$ 75.60
EMPLOYER'S UNEMPLOYMENT INSURANCE PREMIUMS COTISATIONS D'ASSURANCE-CHÔMAGE DE L'EMPLOYEUR	→	$ 66.04

T4A SUPPLEMENTARY TOTALS - *TOTAUX DES T4A SUPPLÉMENTAIRE*

(C) PENSION OR SUPERANNUATION PENSION OU PENSION DE RETRAITE $	(D) LUMP SUM PAYMENTS PAIEMENTS FORFAITAIRES $	(E) COMMISSIONS COMMISSIONS $	(F) OTHER INCOME AUTRES REVENUS $	(G) T4A INCOME TAX DEDUCTED IMPÔT DÉDUIT SELON T4A $	
					→ $

● IF YOU HAVE NOT REMITTED THE TOTAL AMOUNT DETERMINED AT THE RIGHT, THE BALANCE SHOULD BE FORWARDED WITH THIS RETURN

● SI VOUS N'AVEZ PAS VERSÉ LE MONTANT TOTAL ÉTABLI À DROITE, LE SOLDE DEVRA ACCOMPAGNER LA PRÉSENTE DÉCLARATION

TOTAL	$ 777.04
SUBTRACT TOTAL REMITTANCES FOR 1972 SOUSTRAIRE LES VERSEMENTS TOTAUX POUR 1972	$ 777.04
BALANCE **SOLDE**	$ —

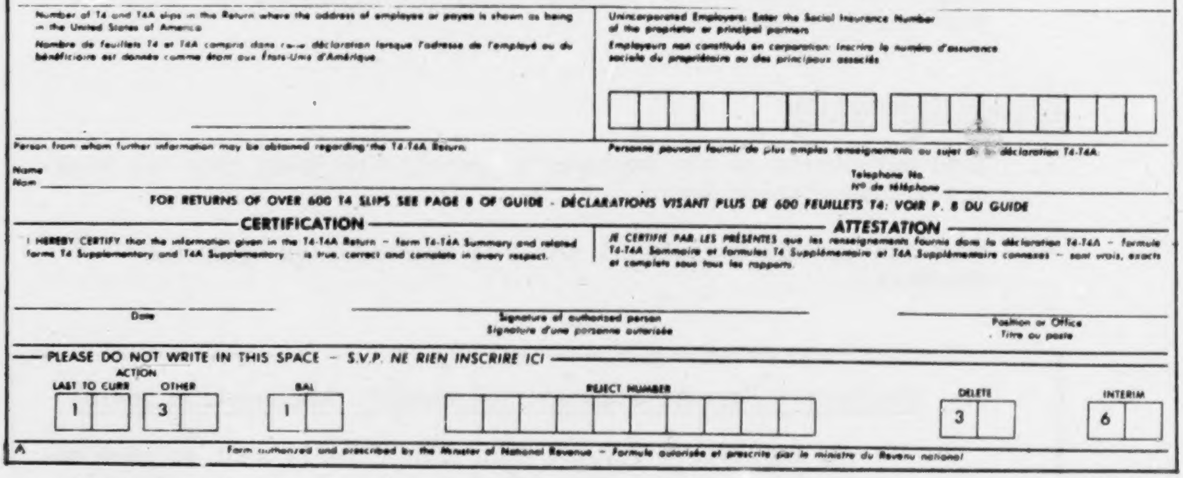
	Total Earnings	CPP	UIC	Income Tax
Martin J. Smith	$3,000.00	$43.30	$27.00	$328.20
John Stoneman	2,400.00	32.40	21.60	183.00
Total	$5,400.00	$75.60	$48.60	$511.20

Note that you add your C.P.P. and unemployment insurance contributions as an employer to get the total contributions figure.

If you had remitted all income tax and Canada Pension Plan and unemployment insurance deductions up to December 31 you would not owe any balance. But if you had not remitted any of the monthly deductions, you would owe that amount and it would appear in the space called balance.

After completing the section of the T4-T4A Summary which calls for dollar information complete the bottom part which calls for:

a. your social insurance number
b. unemployment insurance commission registration number
c. information on non-residents
d. where further information on the T4-T4A Return can be obtained, if necessary
e. your signature.



Number of T4 and T4A slips in the Return where the address of employee or payee is shown as being in the United States of America

Nombre de feuillets T4 et T4A compris dans cette déclaration lorsque l'adresse de l'employé ou du bénéficiaire est donnée comme étant aux États-Unis d'Amérique

Unincorporated Employers: Enter the Social Insurance Number of the proprietor or principal partners

Employeurs non constitués en corporation: Inscrire le numéro d'assurance sociale du propriétaire ou des principaux associés

☐☐☐☐☐☐☐☐☐ ☐☐☐☐☐☐☐☐☐

Person from whom further information may be obtained regarding the T4-T4A Return.

Personne pouvant fournir de plus amples renseignements au sujet de la déclaration T4-T4A.

Name
Nom ____________________

Telephone No.
Nº de téléphone ____________________

FOR RETURNS OF OVER 600 T4 SLIPS SEE PAGE 8 OF GUIDE - DÉCLARATIONS VISANT PLUS DE 600 FEUILLETS T4: VOIR P. 8 DU GUIDE

CERTIFICATION

I HEREBY CERTIFY that the information given in the T4-T4A Return – form T4-T4A Summary and related forms T4 Supplementary and T4A Supplementary – is true, correct and complete in every respect.

ATTESTATION

JE CERTIFIE PAR LES PRÉSENTES que les renseignements fournis dans la déclaration T4-T4A – formule T4-T4A Sommaire et formules T4 Supplémentaire et T4A Supplémentaire connexes – sont vrais, exacts et complets sous tous les rapports.

Date

Signature of authorized person
Signature d'une personne autorisée

Position or Office
Titre ou poste

PLEASE DO NOT WRITE IN THIS SPACE – S.V.P. NE RIEN INSCRIRE ICI

ACTION LAST TO CURR	OTHER	BAL	REJECT NUMBER	DELETE	INTERIM
1	3	1		3	6

A

Form authorized and prescribed by the Minister of National Revenue – Formule autorisée et prescrite par le ministre du Revenu national

Indicator

4. Have the students complete form T4-T4A for Exercise FAB32-1. Information that should be on the T4-T4A Summary:

CPP Employer	$ 74.58	UIC Employer	$66.86	Income Tax	$481.80
CPP Employee	74.58	UIC Employee	47.76		
Total CPP	$149.16	Total UIC	$95.52		

OBJECTIVE 3: THE STUDENTS WILL CORRECTLY COMPLETE A WORKMEN'S COMPENSATION BOARD EMPLOYER'S PAYROLL STATEMENT.

Stimulus

1. Ask: "If one of your employees is injured on the job and receives Workmen's Compensation, who is actually paying the money your employee receives?" Discuss.

Clarify Problem

2. Explain to the students that the Workmen's Compensation Board is a provincial government program which covers workmen in the case of accidents on the job. Employers are required to pay into this plan each year. The amounts of the payments they make depends on:

   a. The number of employees they have

   b. The wages or salaries they pay their employees

   c. The number of accidents that occurred at their business, and in all businesses of the same type.

   An employer is assessed on the above three points in order to determine what he will pay on behalf of his employees. The Workmen's Compensation Board will calculate the actual amount the employer must pay each year.

Provide Information

3. Hand out copies of the Employer's Payroll Statement from the Workmen's Compensation Board.

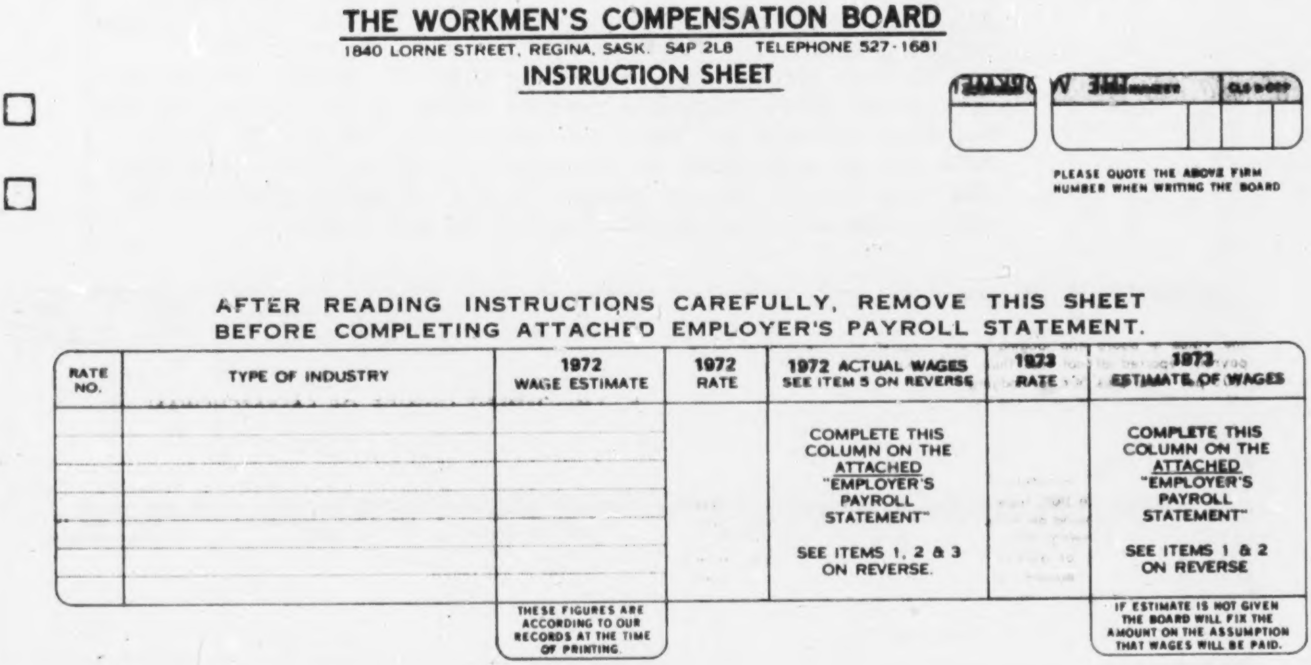
4. Read and discuss Sections 3 and 4 of the Readings with the students.

3. Employer's Payroll Statement (Workmen's Compensation Board)

An Employer's Payroll Statement form is sent to each employer who is registered with this board in January. It is the responsibility of each employer to complete the form and return copies to the board not later than February 28 of the same year. The employer must indicate on the form the actual wages that he paid during the previous year and the approximate wages he will pay during the current year.

FAB32

Note: The top sheet on these forms is merely an instruction sheet; it should be removed before completing the rest of the form. If you will look at the back of the instruction sheet, you will find all the information regarding the procedure to be followed in completing the form. The form used here for illustration is the form used in the Province of Saskatchewan.



THE WORKMEN'S COMPENSATION BOARD
1840 LORNE STREET, REGINA, SASK. S4P 2L8 TELEPHONE 527-1681
INSTRUCTION SHEET

☐

☐

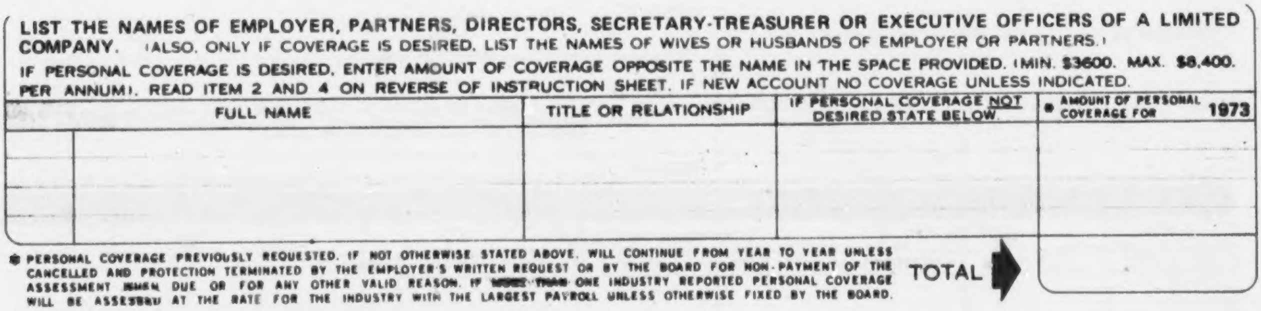
[illegible]	[illegible]	CLS & OFF

PLEASE QUOTE THE ABOVE FIRM NUMBER WHEN WRITING THE BOARD

AFTER READING INSTRUCTIONS CAREFULLY, REMOVE THIS SHEET BEFORE COMPLETING ATTACHED EMPLOYER'S PAYROLL STATEMENT.

RATE NO.	TYPE OF INDUSTRY	1972 WAGE ESTIMATE	1972 RATE	1972 ACTUAL WAGES SEE ITEM 5 ON REVERSE	1973 RATE	1973 ESTIMATE OF WAGES
				COMPLETE THIS COLUMN ON THE ATTACHED "EMPLOYER'S PAYROLL STATEMENT" SEE ITEMS 1, 2 & 3 ON REVERSE.		COMPLETE THIS COLUMN ON THE ATTACHED "EMPLOYER'S PAYROLL STATEMENT" SEE ITEMS 1 & 2 ON REVERSE
		THESE FIGURES ARE ACCORDING TO OUR RECORDS AT THE TIME OF PRINTING.				IF ESTIMATE IS NOT GIVEN THE BOARD WILL FIX THE AMOUNT ON THE ASSUMPTION THAT WAGES WILL BE PAID.

The name of the employer, partners, directors, secretary-treasurers, etc., should be entered as indicated on the form.



LIST THE NAMES OF EMPLOYER, PARTNERS, DIRECTORS, SECRETARY-TREASURER OR EXECUTIVE OFFICERS OF A LIMITED COMPANY. (ALSO, ONLY IF COVERAGE IS DESIRED, LIST THE NAMES OF WIVES OR HUSBANDS OF EMPLOYER OR PARTNERS.)
IF PERSONAL COVERAGE IS DESIRED, ENTER AMOUNT OF COVERAGE OPPOSITE THE NAME IN THE SPACE PROVIDED. (MIN. $3600. MAX. $8,400. PER ANNUM). READ ITEM 2 AND 4 ON REVERSE OF INSTRUCTION SHEET. IF NEW ACCOUNT NO COVERAGE UNLESS INDICATED.

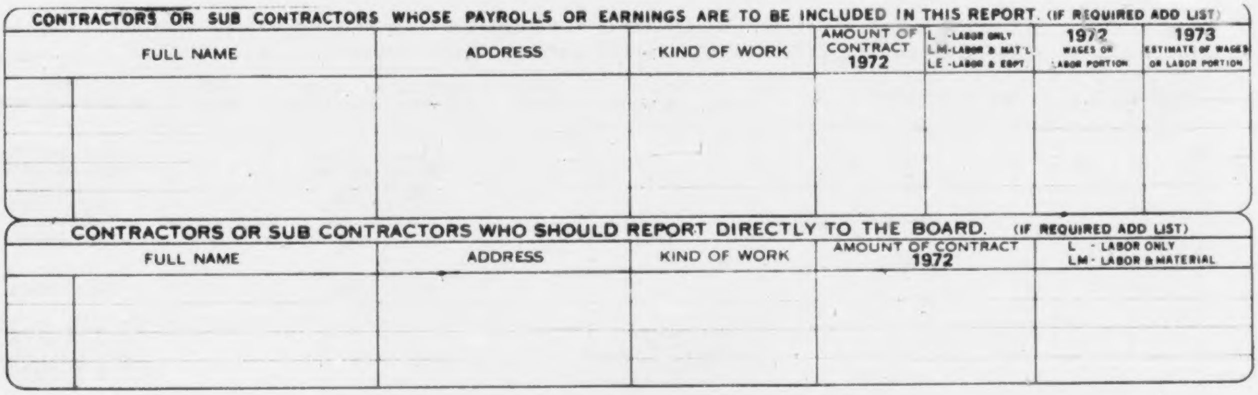
FULL NAME		TITLE OR RELATIONSHIP	IF PERSONAL COVERAGE NOT DESIRED STATE BELOW	* AMOUNT OF PERSONAL COVERAGE FOR 1973
			TOTAL	

* PERSONAL COVERAGE PREVIOUSLY REQUESTED, IF NOT OTHERWISE STATED ABOVE, WILL CONTINUE FROM YEAR TO YEAR UNLESS CANCELLED AND PROTECTION TERMINATED BY THE EMPLOYER'S WRITTEN REQUEST OR BY THE BOARD FOR NON-PAYMENT OF THE ASSESSMENT WHEN DUE OR FOR ANY OTHER VALID REASON. IF MORE THAN ONE INDUSTRY REPORTED PERSONAL COVERAGE WILL BE ASSESSED AT THE RATE FOR THE INDUSTRY WITH THE LARGEST PAYROLL UNLESS OTHERWISE FIXED BY THE BOARD.

FAB32

If an employer, partner, director, etc., wants personal coverage, he must indicate in this section the exact amount of personal coverage wanted for the year. Each employer, partner, executive officer, etc. may apply for varying amounts of personal coverage.

The next two sections on the form refer to contractors or sub-contractors who were employed in the preceding year or may be employed during the current year. These sections are primarily the concern of general contractors, road contractors, etc., who employee various sub-contractors. The first section should include the names, addresses, etc. of those sub-contractors who are not registered with the board. The labour portion of these contracts must be added to the payroll of the employer who engaged these sub-contractors because he is liable for an assessment on the labour portion of the contracts. The next section should contain a list of the contractors or sub-contractors who report directly to the board.



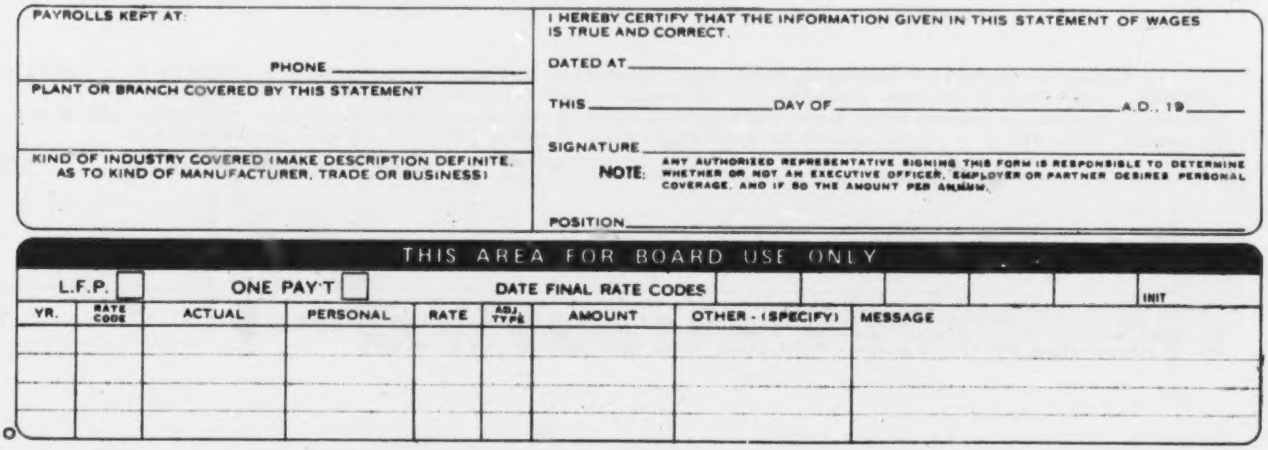
CONTRACTORS OR SUB CONTRACTORS WHOSE PAYROLLS OR EARNINGS ARE TO BE INCLUDED IN THIS REPORT. (IF REQUIRED ADD LIST)

FULL NAME	ADDRESS	KIND OF WORK	AMOUNT OF CONTRACT 1972	L -LABOR ONLY LM-LABOR & MAT'L LE -LABOR & EQPT	1972 WAGES OR LABOR PORTION	1973 ESTIMATE OF WAGES OR LABOR PORTION

CONTRACTORS OR SUB CONTRACTORS WHO SHOULD REPORT DIRECTLY TO THE BOARD. (IF REQUIRED ADD LIST)

FULL NAME	ADDRESS	KIND OF WORK	AMOUNT OF CONTRACT 1972	L - LABOR ONLY LM - LABOR & MATERIAL

The bottom of the Employer's Payroll Statement provides spaces for other information that is required, and for the owner manager's signature.



PAYROLLS KEPT AT:

PHONE ____________

PLANT OR BRANCH COVERED BY THIS STATEMENT

KIND OF INDUSTRY COVERED (MAKE DESCRIPTION DEFINITE, AS TO KIND OF MANUFACTURER, TRADE OR BUSINESS)

I HEREBY CERTIFY THAT THE INFORMATION GIVEN IN THIS STATEMENT OF WAGES IS TRUE AND CORRECT.

DATED AT ____________

THIS ________ DAY OF ____________ A.D., 19____

SIGNATURE ____________

NOTE: ANY AUTHORIZED REPRESENTATIVE SIGNING THIS FORM IS RESPONSIBLE TO DETERMINE WHETHER OR NOT AN EXECUTIVE OFFICER, EMPLOYER OR PARTNER DESIRES PERSONAL COVERAGE, AND IF SO THE AMOUNT PER ANNUM.

POSITION ____________

THIS AREA FOR BOARD USE ONLY

L.F.P. ☐ ONE PAY'T ☐ DATE FINAL RATE CODES | | | | | | INIT

YR.	RATE CODE	ACTUAL	PERSONAL	RATE	ADJ. TYPE	AMOUNT	OTHER - (SPECIFY)	MESSAGE

When copies of the completed Employer's Payroll Statement are submitted to the board, it calculates the assessment payable and prepares an Assessment Notice. The Assessment Notice includes any adjustment necessary on the previous year's actual wage expenditure and the assessment required on the current year's wage estimate. The Assessment Notice shows the total amount payable and indicates the due date.

4. Summary

At the end of each year every employer is required to submit reports dealing with income tax, Canada Pension Plan and unemployment insurance deductions to the federal government, and Workmen's Compensation to the provincial government.

The federal reports include one copy of the T4-Supplementary statements prepared for each employee plus the T4-T4A Summary statement, which shows the total amounts paid in wages and deducted for income tax, U.I.C. and C.P.P. contributions.

The provincial report to the Workmen's Compensation Board, called Employer's Payroll Statement, indicates the actual wages to be paid during the previous year and the approximate wages paid during the current year.

Indicator

5. Have the students complete an Employer's Payroll Statement using the information contained in Exercise FAB32-1.

SUBJECT: FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB32 YEAR-END REPORTING

EXERCISE FAB32 - 1

JONATHAN SMITH

Jonathan Smith owns and operates Midway Gas and Cafe. This cafe and service station is located on the highway just outside the community of Triple Hill Creek.

Jonathan's wife used to work at Midway Gas and Cafe, but after she had her baby she couldn't help in the business anymore. Jenny Wade was hired two years ago to work at the cafe in the place of Jonathan's wife. Because she is a good cook, people like to stop at Midway Gas and Cafe to eat.

Last year Jonathan hired his nephew, Jake Smith, to help him in the service station. Jake had worked in garages before.

The following is the payroll information Jonathan had as of December 31.

1. Jenny Wade (information from Form TD1):
    - a. Age: 21
    - b. Address: Triple Hill Creek, Saskatchewan
    - c. Single
    - d. Personal Exemption: $1,500.00
    - e. Social Insurance Number: 689 - 991 - 991
    - f. Wages: $175.00 per month.

2. Jake Smith (information from Form TD1):

   a. Age: 23
   b. Address: Triple Hill Creek, Saskatchewan
   c. Single
   d. Personal Exemption: $1,500.00
   e. Social Insurance Number: 670 - 990 - 609
   f. Wages: $125.00 every two weeks

INSTRUCTIONS

1. Complete pay sheets for Jenny Wade and Jake Smith, using the necessary deduction tables.

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB33 PERSONAL INCOME TAX (OPTIONAL)

INSTRUCTOR'S GUIDE

OVERVIEW

This lesson may be considered optional. The circumstances in the group will determine whether or not the lesson should be given. Indian people earning income on reserves are exempt from income tax; however, if the income is earned elsewhere, income tax is payable.

In this lesson the students are introduced to personal income tax, the nature of tax return forms and the uses to which tax proceeds are put. It is not the intention of this lesson to prepare the students for filing their own income tax returns.

It will be necessary to obtain and to study the necessary brochures and forms from the nearest branch of the Department of National Revenue, Taxation Branch, well before presenting this lesson.

It should be noted that the Canada Pension Plan contributions and the Unemployment Insurance premiums are both administered by the Department of National Revenue, Taxation Branch, and must be accounted for in completing the income tax form.

OBJECTIVE

The students will discuss the nature of personal income tax and the forms used in completing the individual income tax return.

FAB33

REFERENCE MATERIAL FOR INSTRUCTOR

1. "How the Tax Dollar is Spent". Available from Information Canada, Ottawa or any Information Canada bookstore.
2. "Thirty-two Million Dollars a Day". Available from the Department of National Revenue, Taxation Branch, Ottawa.
3. Kit of forms, brochures, etc. for the individual income tax return. Available from the District Taxation Office.

RESOURCES REQUIRED

1. Individual Income Tax return for each student.
2. Exercise FAB33-1, "Personal Income Tax".

METHODOLOGY

1. Hand out the Readings and read the Purpose and Introduction.

PURPOSE

In this lesson you will discuss what personal income tax is and how it is paid.

INTRODUCTION

The majority of working people are required to pay personal income tax. This lesson discusses how personal income tax is collected and what forms you must remit to the government in connection with the payment of your income tax. The Readings do not contain any of the forms you will be required to send in for income tax purposes; the instructor will hand out forms to you and give various examples of how to complete them. File these handouts in your Readings for future reference.

OBJECTIVE: THE STUDENTS WILL DISCUSS THE NATURE OF PERSONAL TAX AND THE FORMS USED IN COMPLETING THE INDIVIDUAL INCOME TAX RETURN.

FAB33

Stimulus

2. Ask: "Who pays personal income tax?"

Clarify Problem

3. Ask: "What uses are made of the income taxes collected?" List on the flip chart all uses they can think of.

After students have completed listing, compare with the list below:

a. Health and Welfare

(1) Public Health
(2) Medical Care
(3) Hospital Care

b. Income Maintenance

(1) Family and Youth Allowance
(2) Family Assistance
(3) Government contribution to Unemployment Insurance Fund
(4) Social Assistance
(5) Veteran Benefits
(6) Indians and Eskimos
(7) Housing and Urban Renewal.

c. Economic Development and Support

(1) Agriculture
(2) Fisheries
(3) Minerals
(4) Water Resources
(5) Energy
(6) Secondary Industry
(7) Training
(8) Immigration
(9) Labour Force
(10) Tourism
(11) Foreign Trade
(12) Social Science Research
(13) Physical Science Research
(14) Regional Development

d. Public Debt

e. Defence

f. Fiscal Transfer Payments

  (1) Transfers of Revenue to Provinces

g. Transportation and Communication

  (1) Air Transport
  (2) Water Transport
  (3) Rail Transport
  (4) Road Transport
  (5) Post Office
  (6) Telecommunication

h. Internal Overhead Expenses

i. General Government Services

j. Education Assistance

k. Foreign Affairs

l. Cultural and Recreation

  (1) Cultural Institutions
  (2) National Parks

m. Films, Radio and Television

  (1) Canadian Broadcasting Corporation
  (2) Canadian Radio and Television Commission
  (3) National Film Board

Refer to the booklet, "How Your Tax Dollar is Spent" for further details and the amounts spent in each category.

Provide Information

4. Read and discuss Sections 1, 2 and 3 of the Readings.

CONTENT

1. Who Pays Income Tax?

  a. A resident of Canada is liable for payment of income tax on his taxable earnings from all sources both inside and outside Canada.

b. A non-resident who works or carries on business in Canada during a year is also liable for tax on his taxable income earned in Canada.

(That includes just about everybody in an earning capacity.)

NOTE: An exception to the above is a Treaty or Status Indian earning money on Crown lands. He is not required to pay income tax, Canada Pension Plan contributions or unemployment insurance.

2. What is Included? Excluded?

In adding up his income for a taxation year, an individual must include salary, wages, dividends, fees, annuities, pension benefits, alimony receipts, maintenance payments, unemployment insurance benefits, and other miscellaneous income.

Deductions include travelling expenses if employees have to travel to perform their work (railway workers, for instance), union dues, alimony payments and contributions within limits to registered pension plans. Students at secondary schools, colleges and universities, and other certified educational institutions in Canada may deduct tuition fees if those fees are more than $25.00 a year. Students in full-time attendance at foreign universities may also deduct tuition fees.

The following items do not have to be included in reporting income: war service disability pensions paid by Canada or by a wartime ally, social assistance benefits on a means test basis, compensation for injury or death under Workmen's Compensation legislation of the provinces, and Family and Youth allowances.

After listing his income, an individual calculates his taxable income by deducting the following exemptions and deductions:

For single status	$1,500.00
For married status	up to $2,850 (depending on income of spouse)
For each dependent child if under 16	$ 300.00

For each dependent child if over 16 and under 21, attending school or infirm. . . .	$ 550.00
Where taxpayer is 70 years of age or more	$ 650.00
Charitable donations	up to 20 per cent of income
Medical expenses	in excess of 3 per cent of net income

(Medical expenses for which a person is entitled to reimbursement from a public or private medical insurance plan are not deductable.)

In place of claiming deductions for charitable donations and medical expenses for which receipts must be submitted, an individual may claim a standard deduction of $100.00 without receipts.

The amount of tax an individual pays is determined by a progressive schedule of rates which is applied to taxable income, beginning at 17 per cent on the first $500.00 of taxable income and increasing to 47 per cent on taxable income in excess of $60,000.00.

Canadian Personal Income Tax in 1972

Taxable Income		Tax	
$ 500 or less		17%	
500	$ 85	+ 18% on next	$ 500
1,000	175	+ 19% on next	1,000
2,000	365	+ 20% on next	1,000
3,000	565	+ 21% on next	2,000
5,000	985	+ 23% on next	2,000
7,000	1,445	+ 25% on next	2,000
9,000	1,945	+ 27% on next	2,000
11,000	2,485	+ 31% on next	3,000
14,000	3,415	+ 35% on next	10,000
24,000	6,915	+ 39% on next	15,000
39,000	12,765	+ 43% on next	21,000
60,000	21,795	+ 47% on remainder	

A provincial tax is payable in addition to this federal tax. Check the brochure for the rate applicable in your province.

3. Tax Forms

Prior to 1972 there were two types of income tax forms for individuals, called the T1 Short and T1 General. In 1972, the Individual Income Tax return was introduced. This is the form which must be completed before April 30th of each year by taxpayers who make more than the exemptions they are allowed or who are asked to do so by the Department of National Revenue. It is not necessary to wait until April 30th to file. If a refund is coming, the sooner the return is filed, the sooner the refund cheque. Early filing contributes to departmental efficiency and economy, and generally is in everyone's best interest. There are penalties for late filing.

Taxpayers who have filed the previous year will receive personalized copies by mail early in the new calendar year. Labels for the personalized forms are printed by the computer and provide such information as the taxpayer's name and address, his tax account number and his social insurance number (SIN). Personalized forms are provided as a convenience to the taxpayer. They can be processed faster and more economically.

If a taxpayer has moved during the previous year, he may not receive his personalized forms at his new address. He, along with a person filing for the first time, may obtain blank copies at any Post Office or District Taxation Office. When filing after moving to another address, the taxpayer should note his new address on the return.

5. Hand out the Individual Income Tax Return forms. Examine forms in detail with the students. Note that there are two parts to the forms; one is the income tax form itself and the other is a group of nine different schedules. Also note that there are two copies of each form. It may be less confusing if they are detached from each other. Have students first look at Claim for Personal Exemptions, Page 3, then go to page two for Summary of Income and Deductions and then to page one. Use the booklets and simple examples to help students understand the forms, and to learn such aspects as personal exemptions, medical expenses, charitable donations, etc. Also, show the students how to use the Tables for calculation of the tax payable.

6. Read and discuss Sections 4, 5 and 6 of the Readings.

4. Tax Appeals

When differences arise, the Canadian tax system provides easy and inexpensive means of appeal.

a. If a taxpayer's return is changed on assessment, he is provided with an explanation at the time he receives his notice of assessment. If he wishes to inquire about the assessment he should contact his District Taxation Office.

b. If differences are not settled this way, taxpayers have 90 days from the date of the assessment to file a Notice of Objection. Then an appeals officer in one of the 28 District Offices tries to reach a settlement with the taxpayer.

c. Objections that persist may then be taken to one of the four Regional Tax Appeal Offices (Montreal, Toronto, Vancouver and Ottawa).

d. If the difficulty remains, the taxpayer may appeal to the Income Tax* Appeal Board. The Board holds sittings in convenient places throughout the country. There are no court costs, and the $15.00 filing fee is returned if the appeal is successful.

e. If the taxpayer does not agree with the decision of the Tax Appeal Board, he has within 120 days from the time of that decision to appeal to the Exchequer Court of Canada.*

*The Federal Court Act and the Tax Review Board Act have transformed the Exchequer Court of Canada and the Tax Appeal Board to the Federal Court of Canada and the Tax Review Board, respectively, but neither Act had been proclaimed at the time of writing.

f. Finally, the taxpayer under certain circumstances may go to the highest court of the land--the Supreme Court of Canada--if he wishes to appeal an Exchequer Court decision.

Records show that only about one-tenth of one per cent of Canadian taxpayers go as far as the Supreme Court of Canada. The Department's procedure of administrative review eliminate much of the need for formal appeals and litigation.

5. Tax Delinquency

The records show that the vast majority of Canadian Taxpayers report their incomes accurately and pay their taxes promptly.

But there are some delinquents who try to avoid payment of tax. The Department has adequately trained staff to see that they pay -- penalties included. And there are enforcement programs to search out those who do not file a return, although they receive taxable income.

6. Tax Evasion

A few taxpayers engage in such practices as forgery, perjury, alteration of documents, falsification or distortion of records and other devices.

To ensure a fair and firm enforcement of the laws, the Department maintains a special investigation staff to deal with evaders.

In the fiscal year ended March 31, 1970, this staff completed 308 cases and recovered some $22,000,000.00 in tax, interest, penalties and fines. Two mandatory jail sentences were imposed.

There is no objection when a taxpayer, in seeking a beneficial tax result, has merely selected a certain course of action that is either provided for or not specifically prohibited in the law, and has implemented that decision in a real way. However, in such cases the Department is alert to ensure that the boundaries of legitimate tax planning are not exceeded.

The cases that are referred to the Department's Tax Avoidance Division are restricted to those where the taxpayer may have circumvented the law, without giving rise to a criminal offence, by the use of a scheme, arrangement or device, often of a complex nature, the main or sole purpose of which is to avoid, defer or reduce tax payable under the law. The job of this division is to apply the law to the facts as they are revealed as a result of investigation, and to scrutinize closely any scheme whose sole or main purpose appears to be tax avoidance.

The success of our self-assessment system depends to a great extent upon the confidence taxpayers have that the tax laws are being uniformly administered.

If the taxpaying public feel that some people are getting away with "smart schemes" to whittle down their tax bills, there would be no end of trouble in trying to operate a voluntary compliance system of tax collecting. After all, if someone does not pay his fair share of taxes, others have to pay more. Public confidence in the administration of the tax system would be shaken if such practices became the rule, rather than the exception. The Tax Avoidance Division is uncovering many of these schemes and there is already evidence that this activity is having a deterrent effect.

7. Introduce Exercise FAB33-1. Work through this exercise with the students.

8. Read Section 7 of the Readings.

7. Summary

People who receive a salary or wage (above a certain amount - refer to the booklet, "Income Tax Deduction at Source") have income tax deducted by their employer from each pay cheque (see Lesson FAB26, "Payroll Deductions").

At the end of every year each person who earned income is required to complete a Personal Income Tax Return to show how much income tax he or she has paid, how much income tax they should be reimbursed because of overpayment, or how much additional income tax they owe on the the money earned. Because of changes in the Income Tax Act, it is advisable to contact your nearest Department of National Revenue, Taxation office in order to obtain up-to-date material, and to clear up any points of confusion.

9. Discussion during lesson.

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB33 PERSONAL INCOME TAX

EXERCISE FAB33 - 1

Mr. Jack Morris is a mechanic. He is a bachelor, and lives at South End. Jack was born on August 4, 1940. Last year he worked for two employers, and received T4 Slips as follows:

Fast Car Service, South End	
Social Insurance Number: 888 888 888	
Total Earnings:	$2,075.00
Canada Pension Plan Deductions:	43.00
Income Tax Deducted:	433.32

LMN Garage, South End (Present Employer)	
Social Insurance Number: 888 888 888	
Total Earnings:	$7,100.00
Canada Pension Plan Deductions:	84.60
Income Tax Deducted:	1,516.88

Jack received bank interest amounting to $38.35. He donated $20.00 to the United Appeal, and paid union dues of $60.00.

Jack's father died three years ago. Jack gives his mother, Mrs. Jane Morris of South End, an allowance of $75.00 a month. Jack is the only person contributing to his mother's support. Jane Morris was born on September 21, 1908 and has an income of $1,000.00 a year.

INSTRUCTIONS

1. Complete Jack's tax return.

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB34 BUSINESS INCOME TAX (OPTIONAL)

INSTRUCTOR'S GUIDE

OVERVIEW

This lesson may be considered optional. If it is conducted, it should be done with the intention of acquainting the students with the filing of business income tax rather than with the idea of making them proficient in the preparation of income tax returns. The whole field of filing business returns is complex; however, the students should know enough to understand what the tax specialist is doing and what he requires.

Starting in 1972, the same forms are used for personal or individual income tax and for business returns (except for corporations which use a T2 form). The business must file a number of additional schedules to report business income, expenses, and capital cost allowance.

The lesson provides for an explanation of the forms and the working of an example. You will have to provide the students with considerable additional information which you can obtain from the booklets available from the Department of National Revenue.

OBJECTIVE

The students will discuss the requirements for the filing of business income tax returns.

FAB34

REFERENCE MATERIAL FOR INSTRUCTORS

1. Kit of forms, brochures, etc. from the District Taxation Office, Department of National Revenue.

RESOURCES REQUIRED

1. Individual Income Tax returns and Schedules for each student.
2. Exercise FAB34-1, "Business Income Tax".

METHODOLOGY

1. Hand out the Readings and read the Purpose and Introduction.

PURPOSE

In this lesson you will learn how to complete an income tax return for a business.

INTRODUCTION

In the last lesson you learned how to complete the individual income tax return for a taxpayer who receives a salary or wages. In this lesson, the same forms are used for reporting the income of a business which is owned by a sole proprietor or by a partnership. A business which is a limited company uses a different form, called a T2.

OBJECTIVE: THE STUDENTS WILL DISCUSS THE REQUIREMENTS FOR THE FILING OF BUSINESS INCOME TAX RETURNS.

Stimulus

2. Ask: "What additional information is required to complete a business tax return as compared to an individual tax return?" Based on their knowledge of accounting, the students should be able to identify business net income by means of a statement of income and expenses and a schedule of depreciation.

Clarify Problem

3. Have students discuss how they would go about obtaining the information necessary for filing a return. The students should readily see that their set of books will contain the information required. Ask: "What is allowed as an expense? Are drawings by the owner an expense for the business?"

Provide Information

4. Read Sections 1 to 4. Discuss with the students and review the schedules. The important thing for the students to realize is that they must determine the net income figure for the business.

CONTENT

1. Preparing for Filing Business Income Tax

Before you can complete the income tax for a business, you must close off the books of the business. You must know the income and expenses for the business for the year and arrive at a net income figure for the business.

It is important to note that all the income of a business is considered as the owner's if the business is a sole proprietorship. If it is a partnership, the income and expenses for the whole business are reported and each partner records on his return the percentage which belongs to him.

2. Preparing a Statement of Income and Expenses

The schedules which accompany the income tax return contain a statement of income and expenses (Schedule 8) which the businessman may use to report his income and expenses. If the business has prepared a Profit and Loss Statement, this should be attached to the return rather than Schedule 8. It is important that the Profit and Loss Statement use the same depreciation (capital cost allowance) which the Department of National Revenue allows.

3. Capital Cost Allowance

For income tax purposes, depreciation is called capital cost allowance. The regulations allow a maximum amount of depreciation for each item.

The taxpayer may take the maximum amount allowed or a lesser amount, as he wishes. It is suggested you read carefully the section on capital cost allowance in the booklets you have as references. Businesses use the reducing balance method called Part XI. All assets of the same type are added together in classes and the capital cost allowance rate (depreciation rate) is calculated on the total amount of the class. See Schedule 7 for the form to be filled out.

4. Completing the Form

Following the completion of a Profit and Loss Statement (or Schedule 8), Schedule 7 (Capital Cost Allowance) and Schedule 9 (Statement of Capital Disposition), the bottom of Schedule 8 (Adjustment to Income) should be completed. This section is intended to adjust the Profit and Loss Statement for income tax purposes.

The gross income and net income figures can then be recorded in the proper place on page 4 of the individual income tax return form.

The businessman must then calculate his Canada Pension Plan contributions on his own earnings. He should consult the Canada Pension Plan guide for instructions in calculating the Canada Pension Plan premiums.

The businessman will remember that he must report on a T4 and a T4-T4A Summary the deductions of any employees he has had. This is a separate calculation from the one just mentioned for the businessman's self-employed earnings.

After the net income of the business and the employer's Canada Pension Plan calculations have been made, the balance of the return is completed in much the same way as was discussed in the previous lesson.

5. Following the explanation of the method of obtaining the net income for tax purposes, have the students review the method of completing the balance of the form. Go through the form step by step so that the students understand the procedure.

6. Hand out Exercise FAB34-1 and a copy of an income tax return and schedules. Have the students complete the return for Johnny Pin operating Three Hills Outfitting. Discuss.

7. Read Sections 5 and 6 of the Readings. Discuss.

5. Using a Tax Consultant

It is important that you know what is involved in completing the income tax return for your business. Many businesses hire the services of a tax expert to complete the income tax returns. This could result in a money saving in the long run since the filing of income tax is a complex matter. All this lesson can do is acquaint you with the forms. If you wish to complete your own income tax returns for the business you will want to read all the related brochures put out by the Department of National Revenue. A whole course would be necessary to provide all the necessary information on completing income tax returns.

6. Summary

You were introduced to business income tax filing so that you would be familiar with the procedure involved. In most cases, unless you are ready to do a lot of study of new regulations, your best alternative will be to obtain the services of a specialist.

Indicator

8. Provide the students with another exercise using a financial statement of a previous case and have the students use their own individual deductions and exemptions.

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB34 BUSINESS INCOME TAX

EXERCISE FAB 34-1

Johnny Pin, the owner and operator of Three Hills Outfitters, is getting ready to pay his income tax for the year. He has closed off his books and prepared his financial statements.

Johnny is married and has three children; Jack, 2 years old; Mary, 5 years old; and Samuel, 16 years old.

Johnny's wife, Susanne, works as a cook and housekeeper in the business. She receives no salary. Johnny employs guides and casual help when necessary; he pays wages to these workers.

The financial statements for Three Hills Outfitters are attached.

INSTRUCTIONS

Complete Johnny Pin's tax return.

FAB34

Three Hills Outfitters

Profit and Loss Statement

for Period Ending December 31, 1970

Income			
Tourists		$25,000.00	
Cabins		5,000.00	
Boats		1,200.00	
Motors		600.00	
Confectionary		3,500.00	
Fishing Equipment		6,000.00	
Total Income			$41,300.00
Cost of Goods Sold			
Inventory beginning			
Confectionary	$ 400.00		
Fishing Equipment	200.00	600.00	
Purchases			
Confectionary	2,500.00		
Fishing Equipment	4,000.00	6,500.00	
Cost of Goods Available for Sale		$ 7,100.00	
Less: Inventory, ending			
Confectionary	300.00		
Fishing Equipment	500.00	800.00	
Cost of Goods Sold			6,300.00
Gross Profit			$35,000.00
Expenses*			$28,700.33
NET PROFIT			$ 6,299.67

FAB34

* LIST OF EXPENSES

Wages	$10,700.00
Employer C.P.P. & U.I.C.	340.20
Supplies	10,311.60
Repairs and maintenance	1,391.35
Licences	105.00
Heat, Power	2,331.00
Depreciation	3,521.18

FAB34

THREE HILLS OUTFITTING

Balance Sheet

As of December 31, 1970

ASSETS

Current Assets			
Cash on Hand		$ 235.23	
Cash in Bank		3,910.00	
Accounts Receivable		0	
Inventory, beginning			
Confectionary	$ 300.00		
Fishing Equipment	500.00	800.00	
Total Current Assets			$ 4,945.23
Fixed Assets			
Land		3,000.00	
Buildings	$14,000.00		
Less: Accumulated Depreciation	2,760.00	11,240.00	
Boats	$ 3,250.00		
Less: Accumulated Depreciation	601.18	2,648.82	
Equipment	$ 2,100.00		
Less: Accumulated Depreciation	210.00	1,890.00	
Total Fixed Assets			$23,724.05
Total Assets			$28,669.28

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB35 FINANCIAL MANAGEMENT

INSTRUCTOR'S GUIDE

OVERVIEW

The authors of How to Run a Business, state: "A large proportion of bankruptcies are caused by insufficient capital. This may mean that the proprietor's judgement in guaging his business requirements was faulty. It may mean that the business was overexpanded, having either accepted too much credit or extended too much credit." [1]

Financial management concerns itself with the problem of ensuring sufficient available capital in order that the business may meet its debts now and in the future. Solving this problem brings the manager of the small business face to face with the task of determining first what financial sources are available from within the business (now or in the near future) and second, what outside sources are available (now or in the near future), and how he can best avail himself of these sources in order to ensure a profitable return from the business.

In order to determine what sources are available from within the business, the manager must first analyze and interpret the records of the business. The financial structure of the business must be clearly defined, and the immediate needs for capital and the possible sources of capital known. Only after identifying the financial structure of business as it is at the present time, can the manager effectively plan for the future.

Assuming that the manager can clearly identify present needs and present sources, he can then match current receipts with current outlays to see what deficiencies of capital are present. Once he has done this, he can approach various institutions and agencies for the required amounts of capital.

[1] Department of Industry and Department of Manpower and Immigration. How to Run a Business. revised ed., 1968, p. 184.

The financial management of a business does not stop with the meeting of current requirements. The manager of a business must plan the business activities over the long-run. A business must plan for expansion, for acquiring new equipment when the present equipment wears out, for the repayment of long-term debts, and for the many other factors that may require funds in the future. Too many managers, particularly those of small businesses, become so involved with the day-to-day problems of their business that they tend to forget or even put off decisions about the future until the future is suddenly the present. A manager cannot afford to operate on a crisis-to-crisis basis, for sooner or later, he is going to face one crisis too many and disaster in the form of bankruptcy could be the result.

In this lesson it is hoped that the student will see that, like all other aspects of business, the financial structure of the business must be planned. In the Management Process lesson MP7, "The Planning Function", the student was introduced to the many planning activities management must be involved in. In the following FAB lessons, the student will learn how to use many of the tools required for financial planning. These tools range from the analysis and interpretation of financial statements and their derived ratios to the preparation of plans for the future in the form of Cash and Operating Budgets.

OBJECTIVE

The student will be able to state why there is a need for financial management and list some of the tools of financial management.

REFERENCES FOR THE INSTRUCTOR

1. Brightly, Donald S. and the Prentice-Hall Editorial staff, Complete Guide to Financial Management for Small and Medium-Sized Companies, Englewood Cliffs, N. J. : Prentice-Hall Inc., 1971.
2. Canadian Institute of Chartered Accountants, Management Aids for the Smaller Company, Toronto, Ontario: Canadian Institute of Chartered Accountants, 1962.
3. Small Business Administration, Managing for Profits, Washington, D.C.: U. S. Government Printing Office, 1968.
4. Small Business Administration, Cash Planning in Small Manufacturing Companies, Washington, D.C.: U. S. Government Printing Office, 1960.

METHODOLOGY

1. Hand out the Readings and read the Purpose and Introduction.

PURPOSE

In this lesson you will discuss the need for financial management and some of the tools of financial management.

INTRODUCTION

The following are but a few of the questions you, as a manager of a small business, must be able to answer:

1. Are you going to need additional funds in order to meet your current liabilities?
2. Do you have too much money invested in fixed assets?
3. Should you try to decrease the amount of inventory that you carry?
4. Are your operating expenses reasonable when compared to similar businesses?
5. What level of sales do you require to break even?
6. From where did you obtain the funds for your business?
7. Where are the funds of your business going?

In the following FAB lessons you will discuss where to find information and how to use this information to answer these questions. The skills you need to develop in order to obtain the required information and to use it effectively are the skills of financial management.

OBJECTIVE: THE STUDENT WILL BE ABLE TO STATE WHY THERE IS A NEED FOR FINANCIAL MANAGEMENT AND LIST SOME OF THE TOOLS OF FINANCIAL MANAGEMENT.

Stimulus

2. Ask the students how they would go about answering the questions listed in the Introduction. If possible have the students clarify their answers with examples.

Clarify the Problem

3. Ask the students if they feel there is a need for management to know the answers to the types of questions asked in the Introduction. Discuss this with the students. Clarification of the need should not be given by the Instructor immediately; this clarification is contained in the first section of the Readings. It might prove beneficial to list on the flip chart the students' answers to the question asked in this point.

Provide Information

4. Read section 1 of the Readings. Relate back to answers listed in point 3 above and discuss with the students.

CONTENT

1. Financial Management

Most small business managers are not highly skilled in the area of financial management, but they must understand the tools of financial management if they are going to be able to measure the return on their investment. The return on investment expressed as a per cent is the net profit divided by the net worth (difference between assets and liabilities). This can be stated briefly as $\frac{\text{Net Profit}}{\text{Net Worth}} \times \frac{100}{1}$. The manager not only has to know the meaning of the items in his Balance Sheet and Profit and Loss Statement, but he must be able to interpret these records accurately.

Most businesses fail because of inability to pay bills when they come due. This may be caused by weaknesses in sales, lack of working capital, or various other reasons. Using the tools of financial management, either by himself or with the help of outside professional help, the manager may be able to detect problems before they lead to bankruptcy.

5. Read Sections 2, 3, and 4 of the Readings. The tools mentioned in the section will all be studied in later lessons.

2. The Tools of Financial Management

Some of the tools (aids) you will be learning to use in order to plan and control the finances of the business are:

a. financial ratios
b. cash flow projections
c. cash forecasts
d. sources and application of funds
e. projected financial statements.

The effective use of these tools depends upon your ability to analyze and interpret past financial data contained in your records, and at the same time, lay out clear-cut plans for future operations of the business.

3. The Goal of Financial Management

The main goal of financial management is to ensure that the business has funds available to meet the short-term and long-term commitments and plans of the business. This means that you, the manager, must ensure that money is available, either from operations or credit arrangements, so that the business can meet its day-to-day expenses as they become due. You will have to be sure that money is available for expansion of the business, purchase of new equipment, repayment of loans, purchases of additional inventory, and other long-term needs. To ensure that funds are available to meet both short-term and long-term needs, you will need to arrange financing from suppliers, banks, credit unions or government agencies; and you will also have to set up arrangements whereby funds can be invested until they are needed.

The cry of, "If I only had a little more money....." is one the manager faces everyday, and it is his responsibility to plan and control so that the money is available when it is required.

4. Summary

In the following FAB lessons you will be learning how to use the tools of financial management. While it is true that good records are essential in business, it is equally important that you, the manager, know how to analyze and interpret these records in order to meet the future financial needs of your business.

Indicator

6. Ask the students to write a short paragraph on what financial management is and why they feel it is important or not important. Allow approximately 15 minutes for this.

7. Ask for volunteers to read the paragraphs they have just written and follow this up with a discussion.

8. Using the written paragraphs and the discussion, have the students prepare as a group a brief paragraph on what financial management is and a brief list of the tools a financial manager has available for use. Allow approximately 20 minutes for this.

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB36 ANALYZING THE PROFIT AND LOSS STATEMENT

INSTRUCTOR'S GUIDE

OVERVIEW

In this lesson, the students are introduced to the Comparative Statement, which is simply a Profit and Loss Statement covering two or more accounting periods. They are also shown how to use the information in the Profit and Loss Statement to determine how the business is doing financially. Ratios are used for this purpose, and comparisons are made from one year to another or between two similar businesses.

The three financial ratios introduced in this lesson are: gross profit ratio, expense ratio and net profit ratio.

The gross profit ratio is important to any retail businessman. It expresses, as a percentage, the proportion of the revenue of a business which is left after paying for the goods purchased. If the gross profit ratio of a business is 40%, then 60 cents out of every dollar is used to pay for the goods sold, and 40 cents is available for other expenses and profit. The lower the gross profit ratio, the higher the cost of goods sold per dollar of sale, and the lower the amount left for payment of other expenses and profit.

With the gross profit ratio, the businessman can determine the reasons for the good (or poor) performance of his business, and can pin point possible difficulties. For instance, a business may have a high gross profit ratio but have lower sales than one would expect. That is, the sales that are made show a high gross margin, but perhaps due to high prices, not enough sales are made.

The expense ratio expresses the proportion of total expenses to sales. By comparing the expense ratio of his business to previous years or to similar businesses, the manager can determine whether or not he is keeping expenses under control. The manager can also analyze specific expenses (such as labour costs, advertising, etc.) as a percentage of sales in order to determine which particular expense items are too high.

The ratio of net profit to sales gives the business manager a picture of the percentage of each dollar of revenue which is left after the cost of goods sold and other expenses are paid. The net profit ratio expresses net profit as a percentage of sales. Should this ratio decrease while sales are increasing, or if this ratio is low when compared to that of similar businesses, the manager will want to make a detailed analysis of the cause of the low ratio.

During the lesson, the instructor may find it useful to supply the students with actual financial statements from business firms. The students could analyze these and suggest possible courses of action.

OBJECTIVE

The student will be able to prepare a Comparative Profit and Loss Statement, and use it to analyze the gross profit ratio, the expense ratio and the net profit ratio.

RESOURCES REQUIRED

1. Exercise FAB36-1 "Mic Mac Market".

METHODOLOGY

1. Hand out Readings, and read Purpose and Introduction with the students.

PURPOSE

In this lesson you will learn what type of information about your business can be found in your Profit and Loss Statement.

INTRODUCTION

Records are used to keep track of the daily receipts and payouts of your business. At the end of each accounting period you use these records to make up financial statements. These financial statements tell you what the business has done during the accounting period and what its financial position presently is.

The overall objective of managing a business is to manage in such a way as to get a satisfactory return on the money invested in the business, while maintaining a sound financial position.

In order to see if you are meeting this objective, you analyze your financial statements. One of the statements you should analyze is your Profit and Loss Statement.

OBJECTIVE: THE STUDENT WILL BE ABLE TO PREPARE A COMPARATIVE PROFIT AND LOSS STATEMENT, AND USE IT TO ANALYZE THE GROSS PROFIT RATIO, THE EXPENSE RATIO AND THE NET PROFIT RATIO.

Stimulus

2. Ask the students how they can use the information in the Profit and Loss Statement to analyze the operations of a business. Discuss. Have one of the students list the answers on the flip chart.

Clarify Problem

3. Read section 1 of the Readings with the students. Compare the points listed on the flip chart with the material in the Readings. Discuss.

CONTENT

1. What Will the Profit and Loss Statement Tell You?

The Profit and Loss Statement will tell you many things about your business. First, it will tell you if you made or lost money on the operations during the accounting period. But more importantly, it will give you directions as to where to look if your actual profit differs greatly from your planned profit.

The Profit and Loss Statement tells you the story of what has been happening in your business during the past accounting period. By carefully analyzing this statement and comparing it to past Profit and Loss Statements, you may be able to see ways of improving your business.

FAB36

Provide Information

4. Read section 2 of the Readings with the students.

2. Getting Ready to Analyze the Profit and Loss Statements

In order to see how your business has been doing over a number of accounting periods (months or years), you first prepare a Comparative Profit and Loss Statement. This is simply a Profit and Loss Statement which shows the dollar figures for the accounting periods you are comparing.

NOTE: For example purposes, a Comparative Profit and Loss Statement has been prepared. This statement is shown below.

Jake Blackstone
Comparative Profit and Loss Statement
Three Years Ended December 31, 1970

	1968		1969		1970	
	$	%	$	%	$	%
Income						
Cash Sales	50,000.00		58,000.00		61,000.00	
Credit Sales	4,400.00		5,600.00		6,900.00	
Total Income	54,400.00	100.0	63,600.00	100.0	67,900.00	100.0
Cost of Goods Sold						
Inventory, beginning	20,900.00		23,860.00		26,700.00	
Purchases	33,300.00		37,440.00		42,180.00	
Freight	2,300.00		3,560.00		3,980.00	
Cost of Goods Available for Sale	56,500.00		64,860.00		72,860.00	
Less: Inventory, ending	23,860.00		26,700.00		25,330.00	
Cost of Goods Sold	32,640.00	60.0	38,160.00	60.0	47,530.00	70.0
Gross Profit	21,760.00	40.0	25,440.00	40.0	20.370.00	30.0
Total Expenses	12,360.00	22.7	16,260.00	25.6	12,190.00	18.0
NET PROFIT	9,400.00	17.3	9,180.00	14.4	8,180.00	12.0

5. Point out the usage of percentages. Percentages are used to show relations of Income to Sales, Cost of Goods to Sales, Gross Profit to Sales, Total Expenses to Sales, and Net Profit to Sales. The reason percentages are used is that dollar figures can give an unclear picture of trends over a period of time, but percentages will show the trends much clearer because they are related to the same basic figure; that is, sales.

   Ask the students what ratios they think would be useful in analyzing the business. List the answers on the flip chart.

6. Read section 3 of the Readings with the students. Discuss the various ratios.

3. Ratios and What They Can Tell You

Important tools you can use in analyzing your Profit and Loss Statements are ratios. Three ratios you will find very helpful are:

Gross Profit Ratio (Gross Margin)
Expense Ratio
Net Profit Ratio

a. Gross Profit Ratio (Gross Margin)
The gross profit ratio shows you what percentage of your income is available to cover the business's expenses and profits after paying for the goods sold. This is usually referred to as the Gross Margin.

$$\text{GROSS MARGIN} = \frac{\text{GROSS PROFIT} \times 100}{\text{SALES}}$$

From Jake Blackstone's Comparative Profit and Loss Statement:

	1968	1969
Gross Margin =	$\frac{\$21,760.00}{\$54,400.00} \times 100$	$\frac{\$25,440.00}{\$63,600.00} \times 100$
Gross Margin =	40.0%	40.0%

	1970
Gross Margin =	$\frac{\$20,370.00}{\$67,900.00} \times 100$
Gross Margin =	30.0%

Looking at Jake Blackstone's gross margins for the three years you see that even though his income increased there was a big drop in the amount of each dollar of income he had available to cover expenses and profit.

Some of the reasons for this decrease in gross margin could have been:

(1) Higher prices for merchandise from his suppliers. He should check other suppliers to see if he can get a better cost price.

(2) There could be an increase in spoilage and shrinkage. For example merchandise might be spoiling or being damaged because of poor warehouse and stockroom facilities. These spoiled and damaged goods might have to be sold at a lower than cost price or just thrown out. People shoplifting goods off the shelves might be another cause for a decrease in gross margin Or goods might have been taken by employees or members of the family and not marked down.

If your gross margin is below what you had planned or if it starts to decline over a number of periods, you had better start reviewing your policies in order to find the trouble areas. A review of your pricing practices might be called for in order to ensure selling prices that will give you the required gross margin.

b. Expense Ratio

The expense ratio shows you how much it costs you to make your sales. The ratio shows you what portion of each dollar of income you are spending in order to produce that dollar of income.

$$\text{EXPENSE RATIO} = \frac{\text{TOTAL EXPENSES} \times 100}{\text{SALES}}$$

Jack Blackstone's Expense Ratio:

	1968	1969
Expense Ratio =	$\frac{\$12,360.00}{\$54,400.00} \times 100$	$\frac{\$16,260.00}{\$63,600.00} \times 100$
Expense Ratio =	22.7%	25.6%

	1970
Expense Ratio =	$\frac{\$12,190.00}{\$67,900.00} \times 100$
Expense Ratio =	18.0%

c. Net Profit Ratio

The net profit ratio shows you the percentage of income left after paying for the goods and the expenses of the business. This net profit ratio is the percentage of income you can use to pay yourself, pay off loans, purchase more or newer equipment or more buildings, or renovate your present buildings.

$$\text{NET PROFIT RATIO} = \frac{\text{NET PROFIT} \times 100}{\text{SALES}}$$

Jack Blackstone's net profit ratio:

	1968	1969
Net Profit Ratio =	$\frac{\$\ 9,400.00}{\$54,400.00} \times 100$	$\frac{\$\ 9,180.00}{\$63,600.00} \times 100$
Net Profit Ratio =	17.3%	14.4%

	1970
Net Profit Ratio =	$\frac{\$\ 8,180.00}{\$67,900.00} \times 100$
Net Profit Ratio =	12.0%

You should note that even though the dollar amount of income has gone up during the last three years:

$54,400.00 in 1968
$63,600.00 in 1969
$67,900.00 in 1970

the net profit has declined both in dollars and in percentage figures. This means that Jake Blackstone has less money to pay himself and put back into the business even though his dollar sales have gone up.

7. Be sure that the students fully understand these ratios. Review any parts that are not clear.

8. Read section 4 of the Readings with the students.

4. Summary

When you analyze your Profit and Loss Statement don't be blinded by dollar signs. Compare various Profit and Loss Statements to see what your business is actually doing. When comparing statements convert dollars to percentages. These ratio percentages will give you a clearer picture of what your business is actually doing over a period of time.

One point to be aware of is that ratios for different types of businesses can vary greatly. When doing an analysis, be aware of the ratios that are common to your type of business.

Indicator

9. Hand out Exercise FAB36-1. Have the students prepare a Comparative Profit and Loss Statement for Mic Mac Market for the period 1970 - 1971.

10. After preparing the Comparative Profit and Loss Statement, have the students calculate the ratios discussed in this lesson, and prepare a short written report wherein they analyze the operation of the Mic Mac Market for the years 1970 and 1971. If the students wish, they may work in teams of two or three for this exercise.

FAB36

Mic Mac Market

Comparative Profit and Loss Statement

Two Years Ended December 31, 1971

	1970		1971	
	$	%	$	%
Income				
Cash Sales	$ 48,062.05		$ 55,391.24	
Credit Sales	4,612.73		4,167.33	
Other Receipts	16.26		2,393.16	
Total Income	52,691.04	100.0	61,951.73	100.0
Cost of Goods Sold				
Inventory, beginning	0		2,103.92	
Purchases	33,593.15		36,975.45	
Freight	1,745.43		4,316.92	
Cost of Goods Available for Sale	35,338.58		43,396.29	
Less: Inventory, ending	2,103.92		3,376.19	
Cost of Goods Sold	33,234.66	63.1	40,020.10	64.6
Gross Profit	$ 19,456.38	36.9	$ 21,931.63	35.4
Total Expenses	10,235.19	19.4	9,116.29	14.7
Net Profit	$ 9,221.19	17.5	$ 12,815.34	20.7

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB36 ANALYZING THE PROFIT AND LOSS STATEMENT

EXERCISE FAB36 - 1

MIC MAC MARKET

INSTRUCTIONS

1. Using the following Profit and Loss Statements prepare a Comparative Profit and Loss Statement for the Mic Mac Market.

2. From the information on the Comparative Profit and Loss Statement you prepared, calculate the ratios that were discussed in this lesson, and prepare a short written analysis of the operations of the Mic Mac Market for the years 1970 and 1971.

FAB36

Mic Mac Market
Profit and Loss Statement
for year ended December 31, 1970

Revenue			
Cash Sales		$48,062.05	
Credit Sales		4,612.73	
Other		16.26	
Total Revenue			$52,691.04
Cost of Goods Sold			
Inventory, beginning	$ 0		
Purchases	33,593.15		
Freight	1,745.43		
Cost of Goods Available for Sale		35,338.58	
Less: Inventory, ending		2,103.92	
Cost of Goods Sold			33,234.66
Gross Profit			$19,456.38
Total Expenses			10,235.19
Net Profit			$ 9,221.19

FAB36

Mic Mac Market
Profit and Loss Statement
for year ended December 31, 1971

Revenue			
Cash Sales		$55,391.24	
Credit Sales		4,167.33	
Other Receipts		2,393.16	
Total Revenue			$61,951.73
Cost of Goods Sold			
Inventory, beginning	$ 2,103.92		
Purchases	36,975.45		
Freight	4,316.92		
Cost of Goods Available for Sale		43,396.29	
Less: Inventory, ending		3,376.19	
Cost of Goods Sold			40,020.10
Gross Profit			$21,931.63
Total Expenses			9,116.29
Net Profit			$12,815.34

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB37 ANALYZING THE BALANCE SHEET

INSTRUCTOR'S GUIDE

OVERVIEW

In the previous lesson, the students learned how to use the Profit and Loss Statement to determine whether a business was performing as expected, as it did in previous years or as other similar businesses are performing.

In this lesson the students will be introduced to a further analysis of the business in terms of the Balance Sheet. It is possible to determine the financial position of the business by calculating ratios based on the Balance Sheet.

The students will be introduced to a Comparative Balance Sheet which has two or more accounting periods. This Comparative Balance Sheet provides useful information about the changes in the business but does not always give the information needed regarding the financial position of the business. The manager must be able to tell whether or not the position of the business as represented by the Balance Sheet is sound. The Balance Sheet ratios provide a means of delving into some of the strengths and weaknesses of the business.

OBJECTIVE

The students will correctly prepare a Comparative Balance Sheet and use it to analyze a business's financial position, through the comparison of various ratios.

FAB37

RESOURCES REQUIRED

1. Exercise FAB37-1, "Mic Mac Market".

METHODOLOGY

1. Hand out Readings and read the Purpose and Introduction with the students.

PURPOSE

In this lesson you will learn how to calculate various Balance Sheet ratios in order to analyze the financial position of a business.

INTRODUCTION

The Balance Sheet shows the state of your business at any given time. It shows whether your management decisions were good or bad. For this reason, it is very important that you understand how to calculate and use Balance Sheet ratios.

OBJECTIVE: THE STUDENTS WILL CORRECTLY PREPARE A COMPARATIVE BALANCE SHEET AND USE IT TO ANALYZE A BUSINESS'S FINANCIAL POSITION, THROUGH THE COMPARISON OF VARIOUS RATIOS.

Stimulus

2. Ask: "What information can a Balance Sheet tell you about a business?" Discuss.

Clarify Problem

3. Read Section 1 of the Readings with the students.

CONTENT

1. The Purpose of Balance Sheet Analysis

The purpose of a Balance Sheet analysis is to assist you to make the most effective use of your resources.

The following are a few of the questions you can answer by doing a Balance Sheet analysis:

a. Do you have enough cash on hand and in bank?
b. Are your current liabilities large when compared to current assets?
c. Do you have too many fixed assets?
d. Do you have enough capital invested in the business?

Individual Balance Sheet figures by themselves are little more than just numbers, but the relationship between various Balance Sheet figures show the results of your managerial decisions over a number of accounting periods.

Not only does a Balance Sheet analysis show the results of your managerial decisions, but it is also very helpful to people or firms who are approached by you for funds or investments.

4. Points for discussion of the Reading:

a. The increase or decrease of Balance Sheet items from one period to the next is more informative if it is stated in terms of the percentage of increase or decrease, instead of the change in number of dollars. For example, suppose that total assets increased by $10,000 between 1970 and 1971. This is informative, but learning that the increase in total assets was 10 per cent has more meaning.

For this reason a Comparative Balance Sheet should show the asset, liability, and capital figures at the end of two or more successive accounting periods. It should, in addition, show the percentage change in each of the items. An owner-manager is interested in the amount of the item on the latest sheet and the percentage change from the last previous sheet.

b. A Comparative Balance Sheet also shows the percentage distribution of the total assets among the various individual assets, and the percentage distribution of the total liabilities and net worth among the several items in those categories. The percentage figures for two or more dates enable a businessman to analyze his statement more readily for purposes of determining the nature of changes in financial status.

Provide Information

5. Read and discuss Sections 2, 3 and 4 of the Readings with the students. Be prepared to provide additional examples if necessary.

2. The Comparative Balance Sheet

Like the Comparative Profit and Loss Statement, the Comparative Balance Sheet displays the Balance Sheet figures for a number of accounting periods.

Jake Blackstone's Comparative Balance Sheet for the years 1968, 1969, 1970 is shown on the following page,

3. Looking At the Items on the Balance Sheet

The dollar amount of the items entered on a Balance Sheet differs from year to year. The first step in analyzing the Balance Sheet is to examine the more important items on the Balance Sheet to find out which changes are normal and which changes might show financial weakness.

a. Cash on Hand and Cash in the Bank or Credit Union
Wide changes in cash balances from year to year might need an explanation if the causes cannot be easily seen. The cash position should be strong during periods of low sales volume or at the end of a season.

The size of the cash balance is dependent upon:

(1) your management decisions
(2) when you are going to pay your payables
(3) the terms you purchase merchandise under - cash or credit
(4) whether you purchase or rent equipment, buildings, land, etc.
(5) your collection policy for accounts receivable
(6) your personal withdrawal of cash from the business for your own use.

Jake Blackstone
Comparative Balance Sheet
For Three Years Ended December 31, 1970

	1968		1969		1970	
	$		$		$	
Current Assets						
Cash on Hand		640.00		500.00		210.00
Cash in Bank/Credit Union		15,110.00		8,910.00		7,190.00
Accounts Receivable		3,690.00		4,190.00		8,370.00
Inventory		23,860.00		26,700.00		25,330.00
Total Current Assets		43,300.00		40,300.00		41,100.00
Fixed Assets						
Land		3,000.00		3,000.00		3,000.00
Buildings	15,000.00		15,000.00		15,000.00	
Less: Accumulated Depreciation	3,000.00	12,000.00	4,500.00	10,500.00	6,000.00	9,000.00
Equipment	12,000.00		12,000.00		12,000.00	
Less: Accumulated Depreciation	2,400.00	9,600.00	3,600.00	8,400.00	4,800.00	7,200.00
Total Fixed Assets		24,600.00		21,900.00		19,200.00
Total Assets		67,900.00		62,200.00		60,300.00

Liabilities and Owner's Worth

	1968 $	1969 $	1970 $
Liabilities			
Current Liabilities			
Bank Overdraft/Outstanding Cheques	1,230.00	720.00	1,000.00
Loans Payable	6,090.00	6,090.00	5,000.00
Accounts Payable			
Trade	10,000.00	11,500.00	11,850.00
Other			
Total Current Liabilities	17,320.00	18,310.00	17,850.00
Long-Term Liabilities			
Loans Payable Bank/Credit Union	5,000.00	3,910.00	8,090.00
Loans Payable Government	40,000.00	35,000.00	30,000.00
Other	580.00		
Total Long-Term Liabilities	45,580.00	38,910.00	38,090.00
Total Liabilities	62,900.00	57,220.00	55,940.00
Owner's Worth			
Beginning Balance	4,300.00	5,000.00	4,980.00
Add: Current Profit	9,400.00	9,180.00	8,180.00
	13,700.00	14,180.00	13,060.00
Deduct Owner's Drawing	8,700.00	9,200.00	8,700.00
New Owner's Worth	5,000.00	4,980.00	4,360.00
Total Liabilities & Owner's Worth	67,900.00	62,200.00	60,300.00

b. Receivables

Accounts receivable should ordinarily increase with an increase in volume, but the collection period should remain about the same. Increases in the length of collection period, particularly for large receivables when volume is declining, may be a sign of slowness in collecting receivables, or may be due to the granting of longer terms of sale to your customers.

An aging of receivables is very helpful in examining the receivables on the Balance Sheet. If an aging of receivables is not available, a Receivables Turnover or Collection Period Analysis is very helpful.

$$\text{Receivables Turnover} = \frac{\text{Annual Income}}{\text{Accounts Receivable}}$$

$$\text{Collection Period} = \frac{360}{\text{Receivables Turnover}}$$

For example: (From Jake Blackstone's Financial Statements)

1968 Total Income: $54,400.00 (from Profit and Loss)

$$\text{Receivables Turnover} = \frac{\$54{,}400.00}{3{,}690.00} = 14.7$$

$$\text{Collection Period} = \frac{360 \text{ days}}{14.7} = 24 \text{ days}$$

1969 Total Income: $63,600.00 (From Profit and Loss)

$$\text{Receivables Turnover} = \frac{\$63{,}600.00}{4{,}190.00} = 15.2$$

$$\text{Collection Period} = \frac{360 \text{ days}}{15.2} = 23.6 \text{ days}$$

1970 Total Income: $67,900.00 (From Profit and Loss)

$$\text{Receivables Turnover} = \frac{\$67{,}900.00}{8{,}370.00} = 8.1$$

$$\text{Collection Period} = \frac{360 \text{ days}}{8.1} = 44 \text{ days}$$

This analysis of the collection period for accounts receivable indicates that Jake Blackstone should review his credit policy. The collection time for his accounts receivable in 1970 has almost doubled from the previous two years. This could mean that he is not receiving payment from many of his customers. If this upward trend in collection time continues, he is likely to have trouble meeting his own bills, (expenses, accounts payable, and loan payments) because of lack of cash coming into the business. He will also soon have a large bad debts expense.

c. Inventories

There is a need for large inventories when sales volume rises, but the Turnover Rate should remain about the same.

With a decline in sales volume, inventories should be decreased in order that you have more cash available to pay your current liabilities. If inventories are not decreased when sales volume declines, it may mean that you are carrying too much merchandise or that the merchandise is obsolete. You should review your buying policy.

The Turnover Rate of inventories is calculated as follows:

(1) Determine the average inventory for the year

Average Inventory =

$$\frac{\text{Beginning Inventory + Ending Inventory}}{2}$$

(2) Determine the Inventory Turnover Rate

Inventory Turnover Rate =

$$\frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$$

(3) Determine the Inventory Turnover Rate in days

Inventory Turnover in Days =

$$\frac{360}{\text{Inventory Turnover Rate}}$$

Example: (Using Jake Blackstone's Financial Statements)

1968

(1) Average Inventory $= \frac{\$20,900.00 + \$23,860.00}{2}$

$= \frac{\$44,760.00}{2}$

$= \$22,380.00$

(2) Inventory Turnover Rate $= \frac{\$32,640.00}{\$22,380.00}$

$= 1.5$

(3) Inventory Turnover in days $= \frac{360 \text{ days}}{1.5} = 240$ days

1969

(1) Average Inventory $= \frac{\$23,860.00 + \$26,700.00}{2}$

$= \frac{\$50,560.00}{2}$

$= \$25,280.00$

(2) Inventory Turnover Rate $= \frac{\$38,160.00}{\$25,280.00}$

$= 1.5$

(3) Inventory Turnover in days $= \frac{360 \text{ days}}{1.5} = 240$ days

1970

(1) Average Inventory $= \frac{\$26,700.00 + \$25,330.00}{2}$

$= \frac{\$52,030.00}{2}$

$= \$26,015.00$

(2) Inventory Turnover Rate $= \frac{\$47,530.00}{\$26,015.00}$

$= 1.8$

(3) Inventory Turnover in Days $- \frac{360 \text{ days}}{1.8} = 200$ days

d. Fixed Assets

An increase in fixed assets should result in a larger sales volume and higher net profits. Increases in fixed assets should not weaken your ability to meet current liabilities. Fixed asset increases should be financed by money you do not need for current payments, that is, by long term debt or by additional investment by owners.

e. Accounts Payable

Accounts payable usually increase as sales volume rises, because you buy more merchandise so you can meet the increased demands of your customers. If you owe a great deal of money in the form of loans you should keep your accounts payable small. A business has only a limited amount of cash available at any one time; therefore, the repayment of debts and the meeting of expenses must be carefully watched.

If accounts payable remain large as volume declines, it may be an indication of slowness in paying accounts payable. This could cause problems with your suppliers.

4. Ratios

a. Current Ratio

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

The importance of this ratio becomes clear when you recall the definition of current assets. Current assets are those assets which are, or will become, available in the ordinary course of business to pay your current debts.

The greater the current ratio, the greater the protection for short-term creditors such as suppliers and lending agencies. A minimum ratio of 2/1 is usually considered safe depending on the type of current assets involved.

Jake Blackstone's Current Ratio:

1968	1969	1970
$\frac{\$43,300.00}{17,320.00}$	$\frac{\$40,300.00}{18,310.00}$	$\frac{\$41,100.00}{17,850.00}$
2.5/1	2.2/1	2.3/1

b. Liquid or Quick Ratio

The current ratio has one very serious drawback in that it assumes all current assets can be converted to cash with the same degree of ease.

Current assets should be divided into two types:

(1) Liquid Assets
Cash or assets that can be converted into cash without any sales effort. This would be:

- Cash on hand
- Cash in Bank or Credit Union
- Shares in the Credit Union
- Bonds, Stocks
- Accounts receivable

(2) Current Assets which Require Sales Effort:

- Inventories
- Prepaid expenses

Calculations of liquid or quick ratio:
Quick Ratio =

$$\frac{\text{Current Assets - (Inventories \& Prepaid Expenses)}}{\text{Current Liabilities}}$$

A ratio of 1/1 is considered a good risk by short-term creditors.

Jake Blackstone's quick ratios:

1968	1969
$\frac{\$43,300.00 - \$23,860.00}{\$17,320.00}$	$\frac{\$40,300.00 - \$26,700.00}{\$18,310.00}$
$= \frac{\$19,440.00}{17,820.00}$	$= \frac{\$13,600.00}{\$18,310.00}$
= 1.1/1	= 0.7/1

1970

$$\frac{\$41,000.00 - \$25,330.00}{\$17,850.00}$$

$$= \frac{\$15,770.00}{\$17,850.00}$$

= 0.8/1

This ratio is sometimes called the acid test ratio.

c. Fixed Assets to Owner's Worth Ratio

This ratio indicates how much creditors, such as suppliers, banks and lending agencies, have financed the business. It shows how dependent the business is on outsiders for financial help.

Jake Blackstone's fixed assets to owner's worth ratio:

1968	1969	1970
$\frac{\$24,600.00}{\$\ 5,000.00}$	$\frac{\$21,900.00}{\$\ 4,980.00}$	$\frac{\$19,200.00}{\$\ 4,360.00}$
= 4.9/1	= 4.4/1	= 4.4/1

This analysis shows that Jake Blackstone is very dependent upon outsiders for financing his business. By studying the owner's worth section you can see that his withdrawals are very large when compared to the profits being made. In fact in 1970 he withdrew more than he made. Jake should review his personal spending because he is withdrawing too much money from the business, and he is putting the business in an unsound position.

d. Net Profit to Net Worth Ratio

This ratio shows the return on the owner's investment. Together with the net profit to total assets ratio, it shows how effectively you are using your resources.

Jake Blackstone's net profit to net worth ratio:

1968	1969	1970
$\frac{\$\ 9,400.00}{\$\ 5,000.00}$	$\frac{\$\ 9,200.00}{\$\ 4,980.00}$	$\frac{\$\ 8,700.00}{\$\ 4,360.00}$
= 1.9/1	= 1.8/1	= 1.2/1

e. Net Profit to Total Assets Ratio

This ratio is sometimes called the return on investment. It shows you how effective your management decisions are in using the resources (assets) you have available.

1968	1969	1970
$\frac{\$\,9{,}400.00}{\$67{,}900.00}$	$\frac{\$\,9{,}180.00}{\$62{,}200.00}$	$\frac{\$\,8{,}180.00}{\$60{,}300.00}$
= .138/1	= .163/1	= .136/1
as a %:		
13.8	16.3%	13.6%

6. Discuss the usage of ratios. Do students feel ratios are useful in analyzing the business, or are they just more work?

7. Read and discuss Section 5 of the Readings.

5. Summary

Analysis of your financial statements is one of the most important jobs you will have to do when you manage a business.

Analysis of the statements will show you the effect of your management policies. The analysis will also reveal the policies' weak spots before they cause you severe trouble.

Indicator

8. Hand out Exercise FAB37-1, "Mic Mac Market" and have the students complete it.

FAB37

Mic Mac Market
Comparative Balance Sheet
As of December 31, 1972

	1971	1972	Change
Assets	$	$	$
Current Assets			
Cash	1,675.29	213.75	(1,461.54)
Bank	7,079.91	11,406.98	4,327.07
Accounts Receivable	1,717.57	3,453.90	1,736.33
Inventory	2,103.92	3,376.19	1,272.27
Total Current Assets	12,576.69	18,450.82	5,874.13
Fixed Assets			
Assets	13,500.00	12,000.00	(1,500.00)
Less: Accumulated Depreciation			
Total Assets	26,076.69	30,450.82	4,374.13
Liabilities & Owner's Worth			
Current Liabilities			
Sales Tax	252.55	-0-	(252.55)
Accounts Payable	3,772.95	3,284.29	488.66
Total Current Liabilities	4,025.50	3,284.29	(741.21)
Long Term Liabilities			
Loan	18,800.00	17,600.00	(1,200.00)
Total Liabilities	22,825.50	20,884.29	(1,941.21
Owner's Worth			
Balance Beginning	-0-	3,251.19	3,251.19
Current Profit	9,221.19	12,815.34	3,594.15
Less: Year's Drawing	5,970.00	6,500.00	530.00
Net Owner's Worth	3,251.19	9,566.53	6,315.34
Total Liabilities & Owner's Worth	26,076.69	30,450.82	4,374.13

FAB37

Ratios

	1971	1972
1. Receivables Turnover	$\frac{52,691.04}{1,717.57} = 30.6$	$\frac{61,951.73}{3,453.90} = 17.8$
2. Collection Period	$\frac{360}{30.6}$ = 11.4 days	$\frac{360}{17.8}$ = 20.2 days
3. Average Inventory	$1,051.96	$2,740.05
4. Inventory Turnover Rate	31.5	14.7
5. Current Ratio	3.1/1	5.6/1
6. Liquid (Quick) Ratio	2.6/1	4.6/1
7. $\frac{\text{Fixed Assets}}{\text{Net Worth}}$	4.1/1	1.3/1
8. $\frac{\text{Net Profit}}{\text{Net Worth}}$	2.6/1	1.3/1
9. $\frac{\text{Net Profit}}{\text{Total Assets}}$	0.35/1	0.42/1

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB37 ANALYZING THE BALANCE SHEET

EXERCISE FAB37 - 1

MIC MAC MARKET

INSTRUCTIONS

1. Using the information contained in the attached Balance Sheets, prepare a Comparative Balance Sheet for the Mic Mac Market.

2. After completing the Comparative Balance Sheet do an analysis of the financial position of the business using the ratios talked about in this lesson. Write a short report giving your own views on the financial management of the Mic Mac Market.

   In doing this exercise you may work in groups of 2 to 3 people, or you may work alone.

   NOTE: Use the Profit and Loss Statement from Exercise FAB36-1.

Mic Mac Market

Balance Sheet

As of December 31, 1971

ASSETS

Current Assets		
Cash		$ 1,675.29
Bank		7,079.91
Accounts Receivable		1,717.57
Inventory		2,103.92
Total Current Assets		$12,576.69
Fixed Assets		
Assets	$15,000.00	
Less Accumulated Depreciation	1,500.00	
Total Fixed Assets		$13,500.00
Total Assets		$26,076.69

LIABILITIES AND OWNER'S WORTH

Current Liabilities		
Sales Tax		$ 252.55
Accounts Payable		3,772.95
Total Current Liabilities		$ 4,025.50
Long Term Liabilities		
Loan		18,800.00
Total Liabilities		$22,825.50
Owner's Worth		
Balance Beginning	-0-	
Current Profit	$9,221.19	
Less Year's Drawings	5,970.00	
Net Owner's Worth		3,251.19
Total Liabilities and Owner's Worth		$26,076.69

Mic Mac Market

Balance Sheet

As of December 31, 1972

ASSETS

Current Assets		
Cash		$ 213.75
Bank		11,406.98
Accounts Receivable		3,435.90
Inventory		3,376.19
Total Current Assets		$18,450.82
Fixed Assets		
Assets	$15,000.00	
Less Accumulated Depreciation	3,000.00	
Total Fixed Assets		12,000.00
Total Assets		$30,450.82

LIABILITIES AND OWNER'S WORTH

Current Liabilities		
Accounts Payable		$ 3,284.29
Total Current Liabilities		$ 3.284.29
Long Term Liabilities		
Bank Loan		17,600.00
Total Liabilities		$20,884.29
Owner's Worth		
Beginning Balance	$ 3,251.19	
Current Profit	12,815.34	
	$16,066.53	
Less Owner's Drawings	6,500.00	
		$ 9,566.53
Total Liabilities and Owner's Worth		$30,450.82

SUBJECT BUSINESS LAW

LESSON BL8 / SPECIAL CONTRACTS: GENERAL BUSINESS INSURANCE

INSTRUCTOR'S GUIDE

OVERVIEW

This lesson will introduce the student to the topic of business insurance. The insurance field is too vast and complex to be able to deal with it in any detail. Students should realize that insurance is available for various risks (many more than are mentioned in the lesson) and that they should make use of a competent insurance agent in determining their insurance needs.

The students should realize that a whole lifetime of savings and work can go up in smoke in a few hours or that neglect on the part of an employee could cause property damage or personal injury which could be very costly to the business if it is not protected by insurance.

They should also realize that they cannot insure against every risk since it will be much too costly. It is important to select insurance to cover those risks which could be disastrous for the business. A fire destroying the business premises would be a major disaster but perhaps the loss of a $300 truck would be a loss which the business could absorb. However, if that same truck is involved in an accident causing personal injury or property damage, and the driver is found negligent, the loss to the business could be substantial. The businessman will have to decide which risk he can stand and which risk could mean financial ruin. If a business is destroyed by fire, and money was borrowed to purchase the business, the prospective businessman must see that he is still responsible for that debt even though the business premises may no longer exist.

The students will likely be able to gain a great deal of knowledge from a resource person in the insurance field.

BL8

OBJECTIVE

The students will be aware of the major types of insurance available and of the services which an insurance agent can render.

REFERENCE MATERIAL FOR INSTRUCTOR

1. Greene, Mark R. Insurance and Risk Management for Small Businesses. Small Business Management Series No. 30, Washington: Small Business Administration, 1970.

RESOURCES REQUIRED

1. Flip chart.
2. Sample insurance contracts supplied by students, instructor or a resource person to illustrate fire, auto, liability and fidelity insurance.
3. An insurance agent or other person knowledgeable in the insurance field.

METHODOLOGY

1. Hand out the Readings; read and discuss the Purpose and Introduction.

PURPOSE

This lesson will introduce you to business insurance under which you are protected against financial losses caused by fire, theft, car accidents, liability, etc. connected with your business.

INTRODUCTION

As a businessman you have an investment to protect. You protect this investment by good business methods and by carrying business insurance to protect you against the risk of financial disaster.

A sound insurance protection plan is just as important to the success of your business as good financing, accounting, marketing, personnel management, or any other business function. Good insurance management does not just happen, it requires organization and planning. All your work can be lost in a few minutes if your insurance program does not provide the coverage or protection you require for your particular circumstances. There are five steps that you should take to ensure that your business is properly protected:

1. think of the different types of loss you could possibly suffer;
2. take those steps that will give you the best coverage for the least cost;
3. carefully plan how you will manage your insurance program;
4. take insurance only for those losses which could put you out of business or cause a very serious setback;
5. get professional advice.

A lesson in business insurance can do no more than introduce the subject of business insurance, so you will need to rely on the professional advice of the insurance agent you choose.

OBJECTIVE: THE STUDENTS WILL BE AWARE OF THE MAJOR TYPES OF INSURANCE AVAILABLE AND OF THE SERVICES WHICH AN INSURANCE AGENT CAN RENDER.

Stimulus

2. Ask students to list on the flip chart all the different risks of losses which a business faces.

Clarify Problem

3. Ask students to indicate which risks could be covered by insurance. This will give the instructor an idea of the extent of the students knowledge about insurance.

   Some of the types of insurance which the students may mention may include:

a. fire insurance: building, inventory, fixtures and equipment
b. automotive collision insurance (all types of vehicles)
c. automotive liability insurance
d. general liability insurance
e. fidelity insurance
f. burglary and robbery insurance
g. accident insurance
h. boiler insurance
i. performance bond
j. plate glass insurance
k. livestock insurance
l. various valuables floater
m. valuable papers and records floater
n. grain and fodder floater
o. transportation (transit) insurance
p. business interruption insurance
q. life insurance
r. health and sickness insurance.

This is only a partial list of insurance protection available. Compare this list to the one given by the students.

Only a few of the more common forms of insurance are discussed briefly in this lesson. Students can ask the resource person questions concerning the other types of insurance.

4. List on a flip chart the following words and ask the students to give definitions of them:

insurance policy
insurer
insured
premium
beneficiary
deductible
rider
endorsement
insurance agent
insurance broker
insurance adjuster.

5. Read Sections 1 and 2 of the Readings. Discuss each definition and compare it to the students original definition. Make sure students understand the meaning of the terms.

CONTENT

1. The Basis of Insurance

Insurance is a co-operative or group method of pooling by which many people pay a certain small sum (premium) to protect themselves against a potential large loss. Since only a small number of losses actually occur compared to the number of businesses insured, the total of the premiums collected goes to pay the losses which do occur, as well as the administration costs of supplying the service.

2. Some Definitions

When discussing insurance there are a number of words and terms with which you should be familiar. These include:

a. Insurance Policy - written evidence of the terms of an insurance contract.

b. The Insurer - the insurance company that provides the insurance protection.

c. The Insured - the person or business firm that purchases the insurance protection.

d. The Premium - the price paid by the insured for the insurance coverage specified in the insurance contract.

e. Beneficiary - the person or persons named by the insured to receive any claim covered by the insurance policy.

f. Deductible - a clause which eliminates the initial amounts of loss from the insurance policy. That is, the first $50, $100, $200, $500 or $1,000, etc. loss is not covered (protected) by the insurance company. The insurance company pays you for any losses you suffer over the deductible amount. A deductible clause gives the insured a greater incentive to take care of the insured property and, by eliminating a large number of small claims, makes the insurance much cheaper.

g. A Rider - extra protection that is not provided in the standard insurance policy. The terms of this extra protection are written out on a sheet of paper called a rider and attached to the insurance contract.

h. Endorsement - the addition of new terms to an insurance policy already in effect. Suppose an insurance contract was purchased some time in the past and the insured person or business firm that purchased the insurance protection wants to change the terms of the contract (perhaps he purchased more property or expanded his building). If the insurance company agrees to change the terms, a piece of paper containing the new terms, known as an endorsement, is attached to the insurance contract. This eliminates the need for completely rewriting the contract.

i. An Insurance Agent - acts for the insurer (the insurance company) to arrange contracts with persons seeking insurance protection. He often provides a service to clients or customers as well by giving them valuable advice about their insurance needs.

j. An Insurance Broker - generally acts for the insured (the person or business firm buying insurance protection). Large companies often retain the services of an insurance broker. He is well-informed about all types of insurance and can recommend the best type of insurance coverage at the lowest cost.

k. An Insurance Adjuster - an expert in appraising (evaluating) property losses. An adjuster generally settles claims for insurance companies in exchange for a fee.

Provide Information

6. Have students discuss their experiences with fire insurance. Have they had fires? Was there insurance? How did they obtain their insurance? Were there problems in settlement? If students have had no experience with fire insurance, the instructor can talk about his own experiences even though these may be related to a residence. The students should discuss the seriousness of a loss which a business would suffer if a fire occurred.

7. Read Section 3, a of the Readings.

3. Some Types of Business Insurance

a. Fire Insurance

Definition
This is a contract between the insured and the insurer by which a premium is paid to cover buildings, fixtures, equipment, stock (inventory). This contract gives the insured person or business financial protection in case the insured's possessions are destroyed by fire.

Principles of Fire Insurance
There are three essential principles of fire insurance:

(1) Principle of indemnity, which means that a person buying insurance does not recover more than the actual loss suffered. This means that at no time should a person carrying insurance make a profit

due to the fire. If a person carries more insurance than the property is worth, the insurance company will only pay the appraised value of the property insured;

(2) Insurable interest, which means that a person may only carry insurance on property in which he has a financial or legal interest. In other words, a person may only insure property if the loss of the property would result in a loss to the insured person;

(3) Good faith, which requires that both parties to the insurance contract deal in good faith. This means that the insurer is willing to pay a loss if one occurs and the insured gives true answers to information requested by the insurer.

Points to Consider in Buying Fire Insurance

(1) Be sure of the type of protection provided by the insurance policy. All standard fire insurance policies will state those losses, called exclusions, which are not covered by the policy. Examples of exclusions are losses or damage due to war invasion, losses due to radioactive material, losses of money, books of accounts, etc. Most companies will sell extended coverage 'to cover additional losses not covered under the standard insurance policy'. Examples of losses covered under an extended coverage are losses due to windstorm, hail, explosion, riot, smoke damage, etc.

(2) If a person gives false information about the property insured the contract is void, or of no value and the insurance company would not pay.

(3) If there is a substantial change in the risk that is involved in the insured property and the insurance company is not notified, the insurance contract is void. For example, if a building is insured as a grocery store and later is converted to a dry cleaning plant, the risk is greatly changed and the insurance company has to be notified of the change.

(4) When a building is no longer occupied, it is necessary to notify the insurance company, otherwise the insurance policy is void.

(5) When a person purchases a property which is already covered by insurance, it is necessary to either cancel the existing insurance policy and take out a new one or make arrangements with the insurance company to transfer the insurance policy to the new owner, otherwise the new owner is not covered by the existing policy.

(6) Some insurance policies may stipulate as a condition that the property must be repaired, or rebuilt. In such a case the total insurance proceeds are only payable when the repair or rebuilding is complete. This is referred to as a 'rebuilding clause'.

8. Discuss the three principles of fire insurance. Show students copies of fire insurance policies. They should note that the policy contains:

   a. name of the insured

   b. name of the insurer

   c. the perils insured against the subject matter of the insurance (building, contents, etc.)

   d. a clear description of the location of the property

   e. the maximum liability insured by the insurer

   f. the duration of the contract

   g. the date of commencement and the date of termination of the contract, the day and hour

   h. the statutory conditions; and

   i. the signature of the insurer's official to the contract.

9. Ask students to discuss their experiences with automobile insurance. Ask them to list the two main types of coverages contained in the typical automobile policy. They should recognize the coverage for collision, upset, etc., and the coverage for third party liability (injury or property damage).

10. Read Section 3, b of the Readings.

b. Automobile Insurance

Definition

Automobile insurance is a contract between the insured and the insurer by which a premium is paid to cover damages to other property or injury to people. It is important to remember that a person owning an automobile may not only be responsible for damages to property and injury to other people when he is driving, but he may also be responsible for the negligence of another person who is operating the automobile on his behalf. This is the situation when an employee uses a business car or truck. The insurance policy protects the owner of the automobile against losses which may result if he is sued for damages.

Points to Consider in Purchasing Automobile Insurance

(1) All insurance policies provide for a deductible which means that the insured person pays for the initial amount of any accident or loss. This deductible may be $25, $50, $100 or more. The higher the deductible, the less the insurance premium, since the insurance company only pays for damages over and above the deductible amount.

(2) It is important for the purchaser of automobile insurance to see how much protection his policy provides in case of injury to other people or damages to property other than the insured car. Insurance covering damages to other people's property or injury to other people is called 'third party liability insurance'. This type of insurance is not expensive and could prevent a substantial loss to the owner of an automobile in case of an accident.

(3) There are different types of coverages available in automobile insurance: collision or damage to the vehicle and liability insurance. A person purchasing automobile insurance should check to see whether the insurance purchased is really the insurance desired. Each of these two types of insurance can be purchased separately.

11. Discuss Readings and show students a sample automobile insurance policy. Ask them to point out the main parts of the policy.

12. Read Sections 3, c, d and e of the Readings. Discuss each section.

c. Fidelity Insurance

Definition

Fidelity insurance or a fidelity bond is a guarantee by an insurance company to an employer to pay him for the financial loss caused by a dishonest employee. Some companies (and some government departments) will insist that the employees be bonded. This is an insurance contract by which the insurance company agrees to protect the businessman and the public against the dishonest act of an employee who handles money or other valuables. Under a fidelity bond an insurance company would pay losses to the insured person and would attempt to recover the loss from the employee.

d. Burglary and Robbery Insurance

Definition

Burglary insurance protects the insured against losses due to break and entry onto the business premises. Usually visible marks of forced entry are required to qualify as burglary. Robbery is customarily known as 'hold up', which is the taking of property by threatening someone with violence.

There are many forms of burglary and robbery insurance and the businessman will want to check the type of insurance most suitable to his business.

e. Liability Insurance

Definition

Liability insurance is an insurance contract between the insured and the insurer by which the insured is protected against the losses which might occur if he were held responsible for injury to a person or damage to the property of others. The law imposes a duty upon all people to avoid causing injury or property damage. However, it sometimes happens that due to neglect, a person is injured or property is damaged. The business responsible may be sued for this neglect. For example, a customer may fall on a broken step or slippery floor or may trip over merchandise or may fall and get injured on ice in front of the business premises. Liability insurance protects the insured from a law suit resulting from injuries.

Under a liability insurance policy, the insurance company agrees to investigate and negotiate settlement with the people making claims against the business. The insurance company will also defend the insured in case he is sued and they will pay on his behalf any damages the insured is obliged to pay, up to the limit of the insurance policy. Normally this type of insurance is not very expensive, yet protects the insured against very large losses which could occur.

The types of insurances described above are only a few of the many types of insurance available to the business. A businessman considering insurance will want to obtain more information from a qualified insurance agent.

13. Read Sections 4, 5, 6 and 7 of the Readings. Discuss each section.

4. Insurance Costs

You can spend too much as well as too little on insurance coverage. Before you purchase insurance you should consider the following points. They could help you save money.

a. Decide which types of loss to insure against and how much the loss from each could be.

b. Decide which type of risk could result in the largest loss and purchase coverage for it first.

c. Most insurance contracts have a deductible clause. The higher the deductible amount, the lower the insurance premium. You should use as high a deductible as you can afford.

d. Try to get as many kinds of insurance protection as you can in one insurance policy. These are referred to as package policies. Not only is protection and service better, but premiums are often lower than if you purchase several individual policies.

e. Review your insurance program from time to time to make sure that your protection is adequate and that your premiums are as low as possible.

5. Good Insurance Management

To obtain the best coverage at the lowest cost, you must manage your insurance program (much as you would manage your business) and try to reduce risks. This may be done by:

a. Selecting only one insurance agent to handle your insurance program. You will usually get better service than if you purchase insurance from several agents.

b. If an employee or partner is responsible for your insurance program, make sure he fully understands what to do. Check from time to time to see that the job is being done properly.

c. Do everything you can to prevent losses and to keep those that do occur as low as possible.

d. Make sure your insurance agent has all the necessary information about your business and the possible losses that could occur. He cannot recommend the best coverage if you withhold information.

e. Good management of your insurance program will help you to avoid underinsuring or overinsuring. Some people don't buy a certain type of coverage because they think the risk of loss is small. Generally, if the risk is small the premium will also be small.

f. Keep complete records of your insurance policies, premiums paid, losses, and losses recovered. In this way you will keep yourself informed and will be better able to review your insurance program and keep costs to a minimum.

g. You should also keep adequate records of your business property showing original acquisition costs, length of time property has been owned, amounts spent for improvements and repairs, and appraised values of such property.

NOTE: You should have your property appraised by an independent appraiser from time to time. This will assist you in determining whether your protection is adequate. In addition, you will be better able to prove what your actual losses are if any should occur.

6. Professional Advice

Business insurance is a complex subject. For this reason you should obtain the advice of an expert in the insurance field. A professionally qualified insurance agent or broker can often save you far more than his services cost.

7. Summary

Insurance is a method of purchasing protection against a possible loss due to fire, theft, accident, property damage, etc. Not only does insurance shift the risk of loss from the person purchasing the protection, it also spreads the risk among a number of parties who have agreed to take a share in the risk by purchasing similar protection.

Some small businessmen look on insurance as if it were a sort of tax. They recognize that it is necessary but consider it a burdensome expense that should be kept to a minimum.

In actual fact, you can use insurance to get many positive advantages. Used correctly, insurance can contribute a great deal to your success by reducing the uncertainties under which you operate. Insurance should be carried only on risks which could be a severe setback to the business.

If you don't think you can afford the yearly insurance premium, you certainly won't be able to afford the loss if it occurs.

14. Invite resource person to discuss insurance with students.

Indicator

15. Discussion during lesson and with resource person.

SUBJECT BUSINESS LAW

LESSON BL9 OWNERSHIP AND TRANSFER OF REAL ESTATE

INSTRUCTOR'S GUIDE

OVERVIEW

Most students will know very little about the topic of land ownership and the transfer of land. Since it is impossible to go into all the details, the topic may be somewhat difficult for them to grasp.

It is suggested that the instructor read the reference material so that he can provide examples for the students. In addition, a trip to a Land Titles office or Land Registry office can be organized to take place following lesson BL11, "Mortgages". This trip should provide students with more information about the system of land registration. A resource person can also be used to give more details and to answer the students' questions.

OBJECTIVE

The student will be aware of the method of land registration, how land ownership is acquired, and the methods of land transfer.

REFERENCE MATERIAL FOR INSTRUCTOR

1. Anger, William H. and Anger, H.D. Summary of Canadian Commercial Law. Toronto: Sir Isaac Pitman (Canada) Ltd., 1962, pp. 300 - 340.
2. Chapman, F.A.R. Fundamentals of Canadian Law. Toronto: McGraw-Hill Company of Canada Ltd., 1965, pp. 300 - 313.

RESOURCES REQUIRED

1. Optional - a resource person to discuss land registration.

METHODOLOGY

1. Hand out the Readings; read and discuss the Purpose and Introduction.

PURPOSE

In this lesson you will discuss the forms of ownership and methods of transfer of real estate (land and buildings).

INTRODUCTION

Regardless of the type of business you operate, you will likely be involved with land and buildings. Your involvement may be by way of ownership of land and buildings or with renting or leasing of land and buildings. This lesson will deal in the ownership of real estate and the next lesson will deal with leases.

Study of forms of ownership of land and buildings is important since most businesses have a considerable amount of money invested in land and buildings.

You will want to get the professional help of a lawyer before you undertake to buy or sell real estate. However a good knowledge of the way real estate is handled will make it easier to work with the lawyer.

OBJECTIVE: THE STUDENT WILL BE AWARE OF THE METHOD OF LAND REGISTRATION, HOW LAND OWNERSHIP IS ACQUIRED, AND THE METHODS OF LAND TRANSFER.

Stimulus

2. Ask the students: "What is real estate?" "How is land transferred from one person to another?"

Clarify Problem

3. Ask the students who have had experience in the ownership of land to share their experiences.

Provide Information

4. Read Sections 1 and 2 of the Readings.

CONTENT

1. Definition of Real Estate

Real estate consists of land, buildings and water whether on or under land. Real estate is also called real property to distinguish it from personal property which can be moved away. Real estate or real property is land and buildings attached to the land.

2. Types of Interest (Ownership or Other Means of Holding Land) in Land

The two main types of interest in land are "tenancy in fee simple" and "life estate".

a. Tenancy in fee simple
Tenancy in fee simple is the name given to the full ownership of land. It is the highest type of ownership possible.

Technically the Crown (the province) is the only one who can have outright ownership of land, and when it is necessary for the benefit of the public, it may exercise its higher right by expropriation of land owned in fee simple.

b. Life estate
A life estate in land is quite common in order to avoid death taxes. The person having this type of interest has the same rights as a person who owns land in fee simple although he does not really own the land. An example of a life estate would be real estate left by a man so that it will be used by his wife until her death, and then it will be owned by his children. In this case the real estate can be used by the wife for the rest of her life without paying rent. At her death the land is

transferred to the children directly from the estate of their father.

5. Discuss Sections 1 and 2.

The students should see that tenancy in fee simple is the full ownership of land even though the word tenancy is used. The terminology is a historic one, but it reflects the fact that the Crown can expropriate; thus, a higher ownership is possible.

Students should also see that in a life estate you do not have title to the land, but you may enjoy the use of the land as if you owned it. Native students will realize that they may not own reserve land in the tenancy in fee simple way. Their use of the land resembles the life estate, although there are differences.

6. Read Sections 3, 4 and 5.

3. Ownership of Real Estate by More Than One Person

It is possible for more than one person to own a parcel of real estate. Two or more people can own the same piece of land by being either "joint tenants" or "tenants in common".

a. Joint Tenants
Joint tenancy is the name given to ownership of real estate by two or more persons where each person has an undivided share of the real estate. Upon the death of one of the owners, it passes to the survivor. This type of ownership is common between husband and wife. In this case each of the owners has the same interest in the land. An advantage of this type of ownership is that on the death of one owner, the other immediately becomes owner of the deceased's share without any legal formalities.

b. Tenants in Common
In ownership by tenants in common, two or more people can own the same piece of land, but they need not have the same share as in the case of joint tenants. It is possible for one person to have a one-quarter and the other a three-quarter share. Or it is possible to have three owners that own ten per cent, twenty per cent, and seventy per cent respectively. Any combination of interests desired can be arranged.

Another important difference in tenancy in common is that the ownership does not go to the survivor as in the case of joint tenancy. In tenancy in common, ownership at death goes to whomever the owner designed in his will. This is the more common type of ownership for people operating a business in which the real estate is owned by two or more people.

4. Land Registration

In Canada every parcel of land is registered in land registration offices in the different provinces. The office keeps track of the owner of the land and whether there is money owing against the land (a mortgage).

There are two systems for registration of land. One is called the "old system" and is used in Nova Scotia, New Brunswick, Prince Edward Island, parts of Ontario, and part of Manitoba.

The "new system" or "torrens system" of land registration is used in British Columbia, Alberta, Saskatchewan, parts of Manitoba and parts of Ontario.

The two systems have different ways of recording the land and of recording money which is owed against the land. In BL13, "Mortgages", you will see some of these differences.

5. Buildings on Land

The buildings on land are part of the real estate. A person owning land has a right to build on it providing the building conforms to the restrictions of the municipality. There are many restrictions and rules which must be observed in building on land, especially in towns and cities. It is important to be well-informed about the restrictions, rules, and regulations since it can be very costly to overlook them.

Usually all buildings that are on foundations or otherwise attached to the soil are considered permanent improvements of the property and are a part of that real estate. Other buildings which are movable or are on skids are not considered a part of the land.

7. Discuss each section, asking the students for examples to illustrate their understanding of the content.

Examples

a. Joint Tenancy: A husband and wife own a general store in joint tenancy. This means that each owns an undivided share of the business. If the husband dies, the business automatically is owned by the survivor, the wife.

b. Tenancy in Common: Two men own a farm in tenancy in common. One man has a 30% share of it while the other has a 70% share. It is possible for either man to sell his share to someone else. Either man may leave his share of the land to whomever he wishes at his death. The survivor does not receive the other person's share unless it is willed to him.

Tenancy in common is the usual method of joint land ownership between partners. Joint tenancy is more common between husband and wife.

8. Students may wish to examine more closely the land registration system which is used in their province. A resource person can be invited to discuss this system more fully.

9. Read Section 6 of the Readings.

6. Methods of Obtaining Title (Ownership) to Land

The three most common methods of obtaining title or ownership of land are:

- by transfer of deed
- by inheritance
- by possession.

a. Transfer by Deed or "Transfer"
A deed or "transfer" is a document in which one person transfers land to another. Under the "old system" the deed is under seal. Under the new system the "transfer" is not under seal.

If more than one person is to own the land, the deed or "transfer" may be made to a number of people.

The deed or transfer must describe the property in the way it is recorded in the Land Titles office.

b. Inheritance
Ownership to land may be obtained through a person's will.

c. Possession
Each province provides for acquiring ownership by possession. The period of possession varies in each province.

(1) Ontario, Manitoba, Alberta, Saskatchewan: 10 years
(2) Northwest Territories and Yukon: 12 years
(3) British Columbia, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland: 20 years.

For possession to give title, the possession must be visible, exclusive and continuous. When a person pays the taxes, builds a fence, or builds on the land, he is showing visible possession. However, no title by possession may be obtained from the crown.

10. Discuss Section 6.

The students should recognize that if they purchase land for a specified cash value, they will be acquiring land by deed or by "transfer", even though they may not have paid the full purchase price in cash. When a mortgage is placed against the land, the land is transferred to the purchaser's name, but a charge is placed against the land showing to whom the balance of the money is owed.

11. Read Sections 7, 8, 9, and 10 of the Readings.

7. Sale of Real Estate

Since the sale of land is regulated by the law of contract, it must have all the elements of a contract. A contract for the sale of land must, however, be in writing to be legal. A sale of land normally includes all permanent buildings on the land unless it is otherwise stated.

The first terms of the contract are usually on a form called an "offer and acceptance" or "offer to purchase" form. It sets down the conditions of the contract. This is only a preliminary agreement. The formal agreement is prepared by a lawyer.

Following the preparation of the offer and acceptance form which sets out the term of the sale, the seller and the buyer sign the document. The usual procedure is to have someone search the Land Titles or Registry office for the true ownership of the land thereby determining any money owing against the land. This ensures that the new purchaser is not buying land which has encumbrances (debts, etc.) of which he is unware.

The lawyer, in completing the transaction, will check out the exact amount of money owing against the land. In addition, he will calculate any adjustments which are involved, such as determining the taxes payable for a portion of the year.

Under the new system it is quite easy to search a title. It can, however, be quite involved to search and ensure good title under the old system.

8. Option to Purchase

An option to purchase is an agreement between a prospective buyer and seller which gives a prospective buyer a chance to buy real estate for a specified price at a specified date. The terms of the purchase are determined at the time of the option. When the option is exercised by the prospective buyer, the terms of the option are carried out in a contract of sale.

The option to purchase permits a prospective purchaser to line up some land by putting down very little money. If the prospective buyer does not purchase the land, he loses his deposit (his option). The prospective seller is then free to sell the land to someone else.

9. Agreement of Sale

This is a formal contract by which land may be purchased on an instalment basis with a lower down payment than if he purchased it in some other way.

The seller of the land retains the title in his name until the land is completely paid. The contract of the agreement of sale sets out all the conditions of the sale: the down payment, instalment payments and interest rate. The purchaser can use the land as if it were his own.

If the purchaser does not make his payments, the seller can sue for payment or take possession of the land.

10. Summary

The topic of land ownership and transfers is a complex one which requires professional expertise. This lesson can only provide you with a general idea of the subject, which will help you to work more effectively with the professional people in this field.

12. In looking at the option to purchase, the students should realize that the buyer pays a certain sum to have the privilege of being able to purchase land at an assured price at a future date.

    An example would be a person wanting to build a store in town. He may see a piece of land with a store building which looks suitable for his purpose. He may not have the other details of his business planned to the point he feels confident of purchasing the land and building. In this case, he may use the option to purchase. For a sum of perhaps $500.00 or $1,000.00 or more (depending on the price of what he wishes to purchase) the seller may agree not to sell the land and building to anyone else until after the specified date in the option to purchase. The advantages for the buyer are:

    a. He is assured that the land will not be sold to someone else until the agreed date;

    b. He is assured that the price will not increase as he nears the completion of his planning work.

    A seller sometimes raises his price at the last minute once he sees he has a buyer. Unless there is a specified price, the prospective buyer could find himself without the land, or he may find himself competing with someone else.

    If he does not buy, the prospective buyer stands to lose his option (the amount he has put down). Provided the option is not too large, this can sometimes be worthwhile.

13. Inform the students that the agreement of sale resembles purchases on instalment. The purchaser has the advantage of purchasing with a low down-payment; the seller avoids some of the problems of foreclosure when the purchaser does not make payments on a mortgage.

Indicator

14. General discussion of the students.

SUBJECT BUSINESS LAW

LESSON BL10 LEASES

INSTRUCTOR'S GUIDE

OVERVIEW

In this lesson the student is introduced to the topic of leases. It is important that the student understands that it is not absolutely necessary to own property to start a business. He will want to fully evaluate the advantages and disadvantages of both owning and leasing property.

Leasing can be a convenient way to start a small business if the property needed is available for lease. Once the business is operating effectively, the businessman can consider building and owning his premises. In some cases, however, the starting businessman will find he can obtain more credit if he owns the real estate.

OBJECTIVE

Students will be aware of the basic elements of a lease, and will know the points to consider in negotiating a lease.

REFERENCE MATERIAL FOR INSTRUCTOR

1. Anger, W.H. and Anger, H.D. *Summary of Canadian Commercial Law.* Toronto: Sir Isaac Pitman (Canada) Ltd., 1962, pp. 341 - 366.
2. Chapman, F.A.R. *Fundamentals of Canadian Law.* Toronto: McGraw-Hill Company of Canada Ltd., 1965, pp. 314 - 322.

RESOURCES REQUIRED

1. Flip chart.
2. Copies of a number of leases.

METHODOLOGY

1. Do not hand out the Readings immediately.

OBJECTIVE: STUDENTS WILL BE AWARE OF THE BASIC ELEMENTS OF A LEASE AND WILL KNOW THE POINTS TO CONSIDER IN NEGOTIATING A LEASE.

Stimulus

2. Ask the students: "What is a lease?"

Clarify Problem

3. Have the students contribute their experiences with leases, perhaps of houses or suites, to a group discussion.

   Have them list on the flip chart and discuss all the factors to consider in negotiating a lease.

Provide Information

4 Hand out the Readings; read and discuss the Purpose, Introduction and Section 1.

PURPOSE

This lesson will deal with the nature of leases and the points to consider in working out a rental contract.

INTRODUCTION

Many starting businessmen may find it impossible to buy land and construct their own building(s). This means they will consider leasing land and buildings for their business operations. In some cases this may be the best way to start. The businessman is usually short of money to start up the business. If he can lease a building, he does not tie up his money in land and buildings. This leaves more money available for the operation of the business.

A starting businessman may not be sure of the best location for a business. Leasing property permits him to determine whether he has the right location before he invests a large amount of money in real estate. Leasing also gives a person an opportunity to get started sooner than would otherwise be possible, especially if the businessman has the worry and responsibility for the construction of buildings.

The leasing of land and buildings may give the starting businessman more flexibility. It is, however, difficult to generalize which is the best approach. There are advantages to building, and to owning your own land and building. It is easier to obtain credit if you have your own real estate, and payments on the real estate are a form of forced saving since you are building up your equity.

Since many starting businessmen will be considering leasing as a way of obtaining the land and buildings needed to go into business, this lesson will deal with some of the main points you should consider in leasing.

CONTENT

1. Definition of a Lease

A lease is a contract by which the owner of land and buildings (landlord) gives the use of his property to another person (tenant) for a certain length of time and for a certain amount of money. The money paid for the lease is called rent. The lease must comply with all the requirements of a contract.

5. Read and discuss Sections 2, 3 and 4.

2. A Lease Should Be In Writing

Since leases deal with land and buildings (interest in land), a lease must be in writing if it is to be enforceable. It is wise even for short leases to have the lease in writing to avoid misunderstandings which often develop in verbal negotiations.

3. Points to Consider in Negotiating a Lease

Most leases for the rent of a house, an apartment or other dwelling are made on a verbal basis. A business lease should however be carefully negotiated, prepared, and written. The use of a lawyer will be required in preparing the lease, but the following points will help you in working with the lawyer.

a. Length of Lease

The length of the lease may be for a fixed period, at the end of which the tenant must leave. No notice is required in this case. If the tenant leaves before the end of his lease he is responsible for the rent for the remaining part of the fixed period.

The length of lease may be set for a minimum period of six months, a year, or any other predetermined length of time, then continue on a month-to-month, or year-to-year basis. In this case, a notice is required after the minimum period. The length of notice required usually corresponds to the rent payment dates, for example a month's notice is required if rent is paid every month.

b. The Payment of Rent

The method of payment of rent should be clearly set out in the lease. Is part of the rent payable in crop shares as is the case in some farm leases? Is it payable from the sale of such crops when they are sold, or is the landlord's share of the crop delivered directly to him? The lease should clearly set out how and where the rent is payable to the landlord.

c. Payment of Municipal Taxes

The lease should indicate who pays the municipal taxes. In some cases the landlord pays the taxes while in other cases the tenant pays the taxes. In some agreements, there is a split in taxes and the tenant pays any increase in taxes.

d. Subletting the Leased Property

Most leases will permit a tenant to sublet or lease property (which he is leasing) to someone else. The first tenant remains responsible for the payment of the rent. The person to whom the lease is sublet must observe the conditions mentioned in the lease.

e. Permanent Improvement to Leased Land and Buildings

The question of what happens to the improvements you make to leased property should be considered when making the lease; what happens to a walk-in-cooler you add to a building, what happens to special light fixtures or built-in cupboards? Does the tenant have the right to remove these at the end of the lease or do they remain with the building?

The practice in this matter is that the tenant can remove his improvements, provided he does so without damage to the building.

f. Repairs

The lease should foresee who is responsible for repairs to the leased property. When the repairs are to be shared, the lease should list the repairs to be made by the landlord and those to be made by the tenant. If repairs are not mentioned the situation may arise where no one legally is responsible for making any repairs (except those for which the tenant is responsible due to his carelessness or misuse).

4. Summary

The lease is a contract which will bind both the landlord and the tenant. It is important to carefully read the contents of a written lease to ensure you understand all the points. Many clauses in a lease are automatic, and failure to read them may lead to serious misunderstanding of the terms of the lease.

6. Compare the points listed in the Readings to those listed by the students at the beginning of the lesson.

7. Distribute copies of various leases to the students. Ask the group to divide into sub-groups of four or five, and to study the leases.

Indicator

8. Have the students assemble and discuss the leases.

SUBJECT BUSINESS LAW

LESSON BL11 MORTGAGES

INSTRUCTOR'S GUIDE

OVERVIEW

Most students will require a knowledge of mortgages at some time or other, either for business purposes or for their own personal needs. The lesson explains the nature of mortgages, the difference in type of mortgages due to the land registration system, the need for registration of mortgages and finally the mortgagee's remedies in case of default.

The topic of mortgages is a technical one. This lesson can only hope to give the students an awareness of what is involved in a mortgage so they can more easily work with a lawyer.

The use of examples and illustrations would be of great help to the students.

OBJECTIVE

The student will be able to explain the nature of a real estate mortgage and why registration of a mortgage is necessary.

REFERENCE MATERIAL FOR INSTRUCTOR

1. Anger, W.H. and Anger, H.D. *Summary of Canadian Commercial Law.* Toronto: Sir Isaac Pitman (Canada) Ltd., 1962, pp. 211 - 223.

2. Chapman, F.A.R. *Fundamentals of Canadian Law.* Toronto: McGraw-Hill Company of Canada Ltd., 1965, pp. 309 313.

RESOURCES REQUIRED

1. Copies of mortgages on residential or business property.
2. Arrange trip to Land Registry office or Land Titles office.

METHODOLOGY

1. Hand out the Readings; read and discuss the Purpose and Introduction.

PURPOSE

In this lesson you will study real estate mortgages.

INTRODUCTION

In lesson BL7, "Special Contracts: The Sale of Goods", you learned about chattel mortgages. You saw that if you borrow against your car, the person lending you the money would register a chattel mortgage to protect himself against the sale of the car to someone else. The chattel mortgage shows the payments to be made, and provides for the remedy (the action taken by the lender) which can be taken in case of non-payment. You will recall that the person who has the chattel mortgage can repossess the goods against which he has loaned money. He can sell the goods, and can sue for the balance of the price if it is not enough to pay off the loan.

In this lesson you will study another type of mortgage. This is the real estate mortgage which is taken on land and buildings. The chattel mortgage can be taken on personal property, such as household furniture, cars, trucks, boats, machinery and equipment of all types, livestock, etc.

OBJECTIVE: THE STUDENT WILL BE ABLE TO EXPLAIN THE NATURE OF A REAL ESTATE MORTGAGE AND WHY REGISTRATION OF A MORTGAGE IS NECESSARY.

Stimulus

2. Ask students to define a real estate mortgage. List various defin-ations given by students on the flip chart and discuss.

Clarify Problem

3. Ask students to list the different situations in which people use a mortgage. Examples of answers students may give:

   a. purchase of a home;

   b. purchase of business location (land and building);

   c. to obtain a loan or credit on a property which is already owned (a person who has paid in full for his property but who later wants to mortgage it to secure a loan);

   d. mortgage on a residence which is fully paid to help secure a loan for a business.

Provide Information

4. Read Section 1 of the Readings.

CONTENT

1. What is a Real Estate Mortgage?

A mortgage of real estate is a contract by which a person buying land and buildings can pledge the land and buildings as security for a loan. The loan may be used towards the purchase of the land and the buildings, or it may be used for some other purpose. The mortgage gives the person giving the loan or credit security on the real estate.

It is also possible to have a clear title to real estate property (land and buildings) and to mortgage the property to obtain a loan. In this case the person owning the property (mortgagor) mortgages his property to the person giving the loan (mortgagee).

You will recall in lesson BL9, "Ownership and Transfer of Real Estate", you were introduced to two types of land registration systems: the 'old' system, and the 'new' or 'Torrens' system.

Each of the two systems of land registration has a different way of recording mortgages against real estate. Under the old system, the mortgagor (person owning the real estate) virtually makes a transfer of the property to the person making the loan until the debt is paid back. The mortgagor retains possession and has an equity of redemption, which sets out the terms on which the owner can redeem his land. Under the new or Torrens system, the land is not actually transferred from the mortgagor to the mortgagee. The Land Titles office records a 'charge' against the land, thus indicating that money is owing against the land.

5. Have students look at a copy of a mortgage. Let students work in small groups; suggest they review the mortgage. Invite questions.

6. Read and discuss Section 2 of the Readings.

2. Registration of Mortgage

A mortgage is a contract. A mortgage document is normally drawn up by a lawyer who knows all the ways to protect the parties to the contract (search of title, etc.). The mortgage document is binding on the mortgagor as soon as it is signed. But for the protection of the mortgagee (the person making the loan and taking the real estate as security), the mortgage should be registered as soon as possible at the appropriate Land Registration office or Land Titles office handling the real estate in which the mortgaged property is located.

If the mortgaged property is not registered, the land could be mortgaged a number of times with the person first registering the property having the priority. The date of registration determines the priority of the registration.

It is possible to have more than one mortgage on property. Under the Torrens system, the registrar registers a charge as each new mortgage is registered. The first mortgage is the most secure since a second mortgage is only good if there is money to pay out the first mortgage.

Under the old system, a second mortgage cannot have a transfer since this is done for the first mortgage. The second or subsequent mortgage is really only an equity in the property.

7. Read and discuss Sections 3 and 4 of the Readings.

3. Repayment of the Mortgage

By means of the mortgage, the mortgagor gives real estate as security for credit or a loan. By the mortgage contract, the mortgagor undertakes to repay the loan which he made. He agrees to repay the loan along with interest at an agreed-upon rate. The mortgage should indicate how the loan will be repaid on a monthly, semi-annual, annual or lump sum basis.

The mortgagee who gives the loan can repossess the property if the money owed him is not paid. In addition to repossessing, the mortgagee can sue the mortgagor personally for any difference between the value of the property and the loan amount.

4. Sale of Mortgaged Property

A person who has mortgaged some property can sell the property at any time. The person buying the mortgaged property takes the property subject to the mortgage. He may pay the seller the equity which is due to him and he may take over the mortgage payments for the balance. If this purchaser does not make his payments the mortgagee can go back to the original mortgagor to get his payments. Thus the person selling mortgaged property can still be liable for payments on the mortgage if the new purchaser does not make them.

8. Ask students: "What can the mortgagee do if the mortgagor does not pay his mortgage?" List answers on the flip chart and discuss.

9. Read and discuss Sections 5, 6 and 7 of the Readings.

5. Mortgagee's Remedies on Default

If the mortgagor does not make his payments, the mortgagee who has money owing to him can take various legal actions. Most of these are quite technical and would require the assistance of a lawyer. There is only need to mention some of the remedies (ways to settle the problem).

a. He can sue the mortgagor for the amount which is not paid.
b. He can sue for possession of the property.
c. He can sue to get title to the property (foreclosure).
d. He can sue for sale of the property by the court.
e. He can demand possession and take possession if the mortgagor vacates.
f. He can collect the rents if the mortgagor has rented the property to a tenant.

6. Discharge of Mortgage

When the full debt or amount owing against a property has been paid in full, the mortgagor is entitled to a clear title to his property. This is referred to as a discharge of mortgage. The discharge, in effect, does the reverse of the mortgage. Under the old system of land registration, the discharge transfers the property back to the mortgagor and under the new or Torrens system, it removes the charge against the title.

7. Summary

The topic of mortgages is a very involved one and would require a whole course to cover its different aspects. Our purpose here is merely to introduce you to the nature of a real estate mortgage.

As we have seen in the lesson, the mortgage of real estate is a document by which a person who gives another person credit or a loan receives some security for the loan. The registration of the mortgage by the mortgagee (person lending the money) is necessary to prevent other people also getting mortgages on the same property.

Indicator

10. Ask students to explain, in writing, their ideas of what a mortgage is and why registration of a mortgage is necessary; ask them to include examples of mortgages.

11. Arrange a trip to a Land Registry office or Land Titles office. Students may wish to prepare a list of questions which they might ask, or they may simply list areas where clarification of the subject is necessary.

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB38 WORKING CAPITAL

INSTRUCTOR'S GUIDE

OVERVIEW

This lesson deals with the factors which increase or decrease the working capital of a business. It is possible for a small business to have quite adequate assets but to run short of working capital needed to operate the business. It is also quite possible for a business to start in a good working capital position and to gradually see this working capital depleted.

A common error of small business managers is the use of current assets to purchase fixed assets. This decreases the amount of working capital which the business has available. Fixed assets should be purchased by means of long or intermediate term loans, unless the business has an unusually large amount of working capital which it does not use.

Another common error of small business managers is the withdrawal of large amounts of cash or stock for personal use. The working capital is depleted if more is withdrawn than the business earns in profit.

A situation which does not reduce working capital but does render it of little use is that in which money is tied up in accounts receivable. If these accounts are not paid regularly, the money is not available for payment of current liabilities. In this situation, a small business may show a reasonable working capital but have little actual money available for payment of bills.

OBJECTIVE

The students will prepare and analyze a Statement of Source and Application of Funds.

RESOURCES REQUIRED

1. Case FAB38-1, "J.H. Johnson".
2. Exercise FAB38-1, "Mic Mac Market".

METHODOLOGY

1. Hand out Readings; read and discuss the Purpose and Introduction with the students.

PURPOSE

In this lesson you will learn the meaning of "working capital", and you will study the flow of cash through the analysis of a Statement of Source and Application of Funds.

INTRODUCTION

In business it is important to know your cash position at all times. It is embarrassing to have statements for merchandise come due and not have the cash to pay for them. This could also result in a cancellation of your credit privileges. A business needs a steady supply of working capital and you, the owner, need to know where the money comes from and where it is going.

OBJECTIVE: THE STUDENTS WILL PREPARE AND ANALYZE A STATEMENT OF SOURCE AND APPLICATION OF FUNDS.

Stimulus

2. Hand out and read Case FAB38-1, "J.H. Johnson". Discuss the questions at the end of the case.

Clarify Problem

3. Read Section 1 to the end of the example with the students.

CONTENT

1. Working Capital

What is working capital?

Working capital is the money needed to keep the business going; that is, to purchase merchandise, keep the shelves full, sell goods, collect from customers, pay for the merchandise, etc.

Working Capital = Current Assets - Current Liabilities

a. Example

Current Assets		
Cash on Hand	$ 500.00	
Cash in Bank	1,000.00	
Accounts Receivable	5,000.00	
Inventory	10,000.00	
Total Current Assets		$16,500.00

Current Liabilities		
Accounts Payable	6,000.00	
Short-Term Loan	500.00	
Taxes Payable	100.00	
Total Current Liabilities		6,600.00
Working Capital		$ 9,900.00

Provide Information

4. Using the information in Johnson's Balance Sheet, have the students calculate Johnson's working capital.

Solution:

Current Assets		
Cash on Hand	$ 853.72	
Cash in Bank	208.22	
Accounts Receivable	2,499.61	
Inventory	14,009.00	
Total Current Assets		$17,570.55

Current Liabilities

Taxes Payable	$ 99.22	
Customer Deposits	184.29	
Trade Accounts Payable	2,861.53	
Total Current Liabilities		$ 3,145.04
Working Capital		$14,425.51

5. Discuss the amount of working capital a business needs. Then continue with Section 1 of the Readings.

Generally speaking, the right amount of working capital for a business to have is the amount needed to keep your business operating smoothly. This amount varies from business to business and from season to season. Too little working capital means inability to pay bills, embarrassment, and lost sales, while too much means money is not being used to your advantage.

Ways businessmen can calculate and control the flow of needed cash are:

a. Separate your personal cash from your business cash.

b. Keep records. Know where your money comes from - sales, cash received on account, loans, sale of fixed assets. Know where your cash is going - to pay for goods, expenses, loans, owner's drawings.

c. Calculate your cash receipts and expenditures month by month. In this way you build up records which show seasonal needs.

6. Discuss with the students how you can find out where your funds came from and where they went. Read Section 2 of the Readings.

2. Source and Application of Funds

This is a year-end statement which shows the manager where the funds came from, where the funds went and what changes took place in working capital.

Working capital is affected by changes in:

a. Fixed Assets
b. Long Term Liabilities
c. Equity

Examples

(1) Sale of fixed assets increases working capital.
Purchase of fixed assets decreases working capital.

(2) Payments of long-term loans decrease working capital.

(3) Putting profits into equity increases working capital.
Owner withdrawals from equity decrease working capital.

(4) Depreciation, which does not require an outlay of cash, increases working capital.

NOTE: Below we provide an example of a Statement of Source and Application of Funds.

NAME OF BUSINESS
STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR YEAR ENDING ____________

SOURCES OF FUNDS

FROM CURRENT OPERATIONS

NET PROFIT	____	
PLUS: DEPRECIATION	____	____
SALE OF FIXED ASSETS		____
LOANS		____
TOTAL		====

APPLICATION OF FUNDS

PURCHASE OF FIXED ASSETS

LAND
BUILDINGS
EQUIPMENT

LOAN REPAYMENTS
OWNER DRAWINGS

TOTAL

NET CHANGE IN WORKING CAPITAL

TOTAL SOURCES

MINUS: TOTAL APPLICATION

INCREASE (DECREASE)

CHANGES IN WORKING CAPITAL

	BALANCE SHEET BEGINNING	BALANCE SHEET ENDING	CHANGE IN WORKING CAPITAL
CASH			
ACCOUNTS RECEIVABLE			
INVENTORIES			
CURRENT ASSETS			
CURRENT LIABILITIES			
WORKING CAPITAL			

7. Read and discuss Section 3 of the Readings with the students.

3. Summary

The working capital of a business is defined as the excess of current assets over current liabilities.

Current Assets

MINUS Current Liabilities

EQUALS Working Capital

This figure has always been considered important by creditors as an easily interpreted measure of the short-run solvency of a business -- the ability of the business to finance current operations and to meet current liabilities as they fall due.

The businessman can use the working capital analysis to see what his needs for financing are for the coming year. He can then make arrangements for financing well in advance of his needs.

Indicator

8. Hand out Exercise FAB38-1, "Mic Mac Market". Have the students prepare a Statement of Source and Application of Funds. After the students have prepared the Statement, have them prepare a short written analysis of what they would recommend in the way of short-term financing.

FAB38

Mic Mac Market
Statement of Source and Application of Funds
For year ending December 31, 1972

Source of Funds from Current Operations

Net Profit for Year	$12,815.34	
Plus: Depreciation	1,500.00	
Total from Sources		$14,315.34

Application of Funds

Loan Repayments	$ 1,200.00	
Owners Drawings	6,500.00	
Total Applications		7,700.00
Increase (Decrease) in Working Capital		$ 6,615.34

Changes in Working Capital

	Balance Sheet Jan. 1, 1972	Balance Sheet Dec. 31, 1972	Working Capital Increase (Decrease)
Cash	$ 1,675.29	$ 213.75	$(1,461.54)
Bank	7,079.91	11,406.98	4,327.07
Accounts Receivable	1,843.93	3,453.90	1,609.97
Inventory	2,103.92	3,376.19	1,272.27
Total Current Assets	12,703.05	18,450.82	5,747.77
Current Liabilities	(4,151.86)	(3,284.29)	867.57
Working Capital	$ 8,551.19	$15,166.53	$ 6,615.34

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB38 WORKING CAPITAL

CASE FAB38 - 1

J. H. JOHNSON

J.H. Johnson, a local outfitter, started business on January 15, 1970. He was interested in finding out how much money he made in his first year, so on December 31, 1971 he prepared a Profit and Loss Statement and a Balance Sheet (the Balance Sheet is on the next page). With these two statements, he knew he could find out what the financial position of his business was for the year.

By knowing where the money had come from and where it had been spent, Johnson would be able to see the ability of his operation to pay its bills. He also would be able to plan his operations for next year, convert his current assets to money, and make the money on hand work for him. In order to acquire the needed information, he made up a Source and Application of Funds Statement.

Questions for Discussion

1. What does source and application of funds mean?
2. What is working capital?

FAB38

J. H. Johnson
Balance Sheet
as of December 31, 1971

Assets

Current Assets			
Cash on Hand		$ 853.72	
Cash in Bank		208.22	
Accounts Receivable		2,499.61	
Inventory		14,009.00	
Total Current Assets			$17,570.55
Fixed Assets			
Land		600.00	
Store Building	$16,116.65		
Less: Accumulated Depreciation	1,600.00	14,516.65	
Fixtures	4,225.00		
Less: Accumulated Depreciation	420.90	4,804.10	
Total Fixed Assets			$19,920.00
Total Assets			$37,491.30

Liabilities and Net Worth

Current Liabilities			
Taxes Payable	$ 99.22		
Customer Deposits	184.29		
Trade Accounts Payable	2,861.53		
Total Current Liabilities		$ 3,145.04	
Long-Term Liabilities			
Loan	16,601.14		
Total Long-Term Liabilities		$16,691.14	
Total Liabilities			$19,836.18
Owner's Worth			
Beginning Balance	16,937.05		
Net Income From Operations	4,378.07		
	$21,315.12		
Less: Owner's Drawings	3,660.00		
Net Owner's Worth			$17,655.12
Total Liabilities & Owner's Worth			$37,491.30

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB38 WORKING CAPITAL

EXERCISE FAB38 - 1

MIC MAC MARKET

Instructions

Prepare a Statement of Source and Application of Funds for Mic Mac Market dated December 31, 1972 using the following Profit and Loss Statement and Balance Sheet. You will also need the Balance Sheet for 1971 as given in Exercise FAB37-1.

Mic Mac Market
Profit and Loss Statement
For year ending December 31, 1972

Income		
Cash Sales	$55,391.24	
Credit Sales	4,167.33	
Other Receipts	2,393.16	
		$61,951.73
Cost of Goods Sold		
Inventory, beginning	$ 2,103.92	
Purchases	36,975.45	
Freight	4,316.92	
Cost of Goods Available for Sale	43,396.29	
Less: Inventory, ending	3,376.19	
Cost of Goods Sold		40,020.10
Gross Profit		$21,931.63
Total Expenses (following page)		9,116.29
Net Profit		$12,815.34

FAB38

Expenses

Employee Net Wages	$2,210.00
Employee Income Tax	191.50
Employee CPP-UIC	63.18
Employer CPP-UIC	63.18
Supplies, Postage, Stationery	309.41
Light, Heat, Water	201.16
Rent	3,060.41
Repairs	316.34
Delivery	98.25
Telephone	192.16
Interest	90.00
Accounting, Legal	45.00
Taxes, Licences, Fees	295.00
Advertising	139.16
Bank Service Charge	10.95
Bad Debts	331.00
Depreciation	1,500.00
Total Expenses	$9,116.29

Mic Mac Market
Balance Sheet
As of December 31, 1972

ASSETS

Current Assets		
Cash on Hand		$ 213.75
Cash in Bank		11,406.98
Accounts Receivable		3,453.90
Inventory		3,376.19
Total Current Assets		$18,450.82
Fixed Assets		
Assets	$15,000.00	
Less:Accumulated Depreciation	3,000.00	
Total Fixed Assets		$12,000.00
TOTAL ASSETS		$30,450.82

LIABILITIES AND OWNER'S WORTH

Current Liabilities		
Accounts Payable		$ 3,284.29
Total Current Liabilities		3,284.29
Long Term Liabilities		
Bank Loan		17,600.00
TOTAL LIABILITIES		$20,884.29
Owner's Worth		
Beginning Balance	$ 3,251.19	
Current Profit	12,815.34	
	$16,066.53	
Less:Owner's Drawings	6,500.00	
NET OWNER'S WORTH		$ 9,566.53
TOTAL LIABILITIES AND OWNER'S WORTH		$30,450.82

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB39 PLANNING AND BUDGETING

INSTRUCTOR'S GUIDE

OVERVIEW

Planning must be applied to all phases of business operations -- production, sales, personnel, finance, and so on. The success or failure of a new business hangs in balance during the first year or two of business operations. During this critical period, the quality of management will determine the outcome. Planning is one of the management functions which cannot be neglected, even though the small businessman may only have a limited amount of time available for planning.

In this lesson the student will examine the financial management planning tool called budgeting. You will see what budgeting is and how it is used to plan and direct the financial actions of a business.

The instructor should illustrate with many examples the points made in the lesson to help students see the practical usefulness of budgeting.

OBJECTIVE

The students will relate the functions of planning and controlling to the use of budgets in business.

METHODOLOGY

1. Hand out the Readings and read the Purpose and Introduction.

PURPOSE

In this lesson you will look at the financial side of planning.

INTRODUCTION

In the Management Process lesson MP7, "The Planning Function", planning was defined as the laying out, preferably on paper, of a future course of action. Planning was then broken down into the four following areas:

1. Planning for sales
2. Planning for profit
3. Planning for personnel
4. Planning for production

When you are involved in planning the activities of your business, you must decide who is going to perform them, and how they are going to be performed. You must always be aware of the financial side of planning; that is, how much money you can expect to take in from the activities and how much you must spend in order to perform the activities. The financial side of the planning function is usually referred to as a budget. In this lesson you will examine some of the characteristics and uses of budgets in business.

OBJECTIVE: THE STUDENTS WILL RELATE THE FUNCTIONS OF PLANNING AND CONTROLLING TO THE USE OF BUDGETS IN BUSINESS.

Stimulus

2. Ask the students to explain in their own words what budgeting is.

Clarify Problem

3. Have one of the students list on the flip chart the suggestions of the group. Then have the students develop the definitions on which they all agree.

Provide Information

4. Read and discuss Section 1 of the Readings.

CONTENT

1. The Use of Budgeting

You have seen that planning is one of the most important functions of management. Much of the financial planning of business is based on budgets. A budget may be defined as a financial plan showing expected income and outlays for a given period of time.

5. Read and discuss Section 2 of the Readings. Relate the content in this section to the students' definition of budgeting.

2. Purposes of Budgets

A well-prepared budget helps management in many ways. Its main purpose is to serve as a guide in planning financial operations. A second purpose is to establish limits on expenditures. Although budgets are only estimates they should be used to set limits within which the financial operations of the business should operate. If you spend too much money for certain activities you should attempt to cut expenses in another area.

Another important purpose of a carefully-prepared budget is to encourage you to make an analysis of all present operations. On the basis of this analysis, you can decide which activities can be cut back and which can be maintained or expanded. Budgets are used for control purposes.

6. Ask the students if budgets can be prepared for the various activities of a business. List the types of budgets that they suggest on the flip chart.

7. Read and discuss Section 3 of the Readings. Relate the content of this section to the list prepared by the students.

3. Types of Budgets

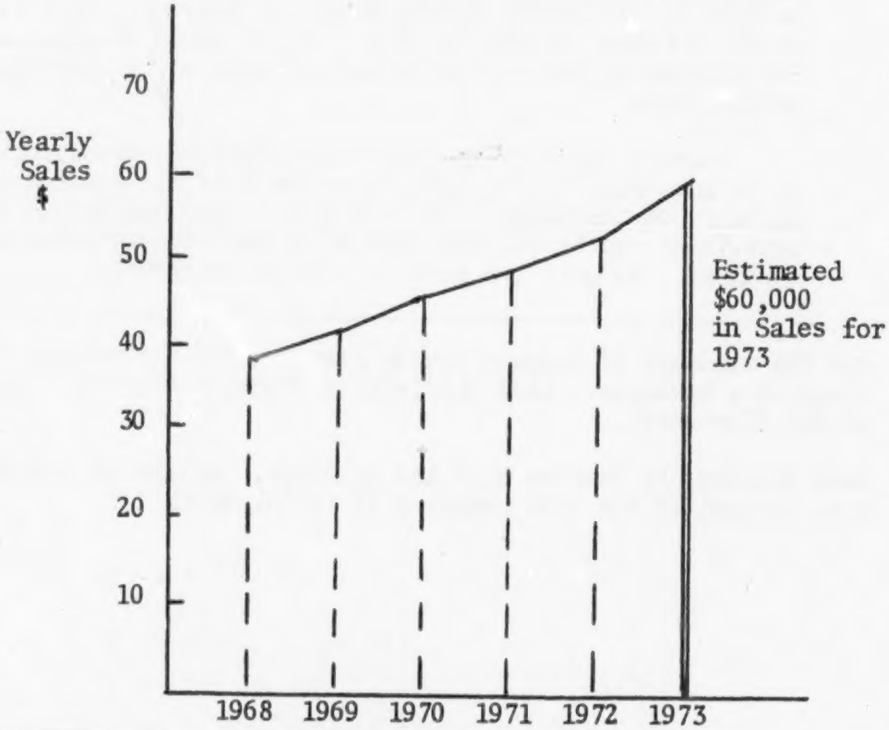
The first budget to be prepared is the sales budget. This is an estimate of the total expected sales during the budgeting period. The methods for estimating (forecasting) sales are discussed in Marketing lesson MKT3, "Sizing Up a Market Opportunity" and Marketing 13 "Analysing your Market".

Another approach to the preparation of the sales budget is to begin with a line graph of sales for recent periods. This is projected for the budgeting period.

When forecasting sales for an up-coming period you must attempt to anticipate any factor or new development that might increase or decrease future sales as compared with past performance.

In this same manner (comparing past performance with expected operations and accounting for new developments) budgets are prepared for production operations, raw materials and supplies, sales expenses, labour, additional assets and any utility that requires an important expenditure.

Line Graph of Sales



8. Ask the students how one prepares a budget. List steps suggested on the flip chart.

9. Read and discuss Section 4 of the Readings. Relate to the list in point 8 above.

4. Steps in Budgeting

The first step in budgeting is to make plans for the period ahead. Using the records of past performance as the starting point, you must study all the important phases of the business. Then you prepare estimates for the budgeting period.

The second phase is the planning and maintenance of records of expenditures during the budgetary period. These records must be accurate, up-to-date and relatively easy to interpret. Records of this sort enable you to make comparisons from time to time to see how actual expenses are falling into line with the estimates that you have prepared.

The third step is to study any actual differences between original estimates and actual expenditures. In some cases, you might decide to alter the budget - for instance, when you have unusual capital costs, such as replacing equipment, enlarging a building or making some other modification that has not been planned. However, in most cases, you should take steps to bring expenditures into line with the original estimates.

10. Read and discuss Section 5 and 6 of the Readings.

5. Budgetary Control

Management uses budgets for control purposes. When they are well prepared and realistically based on past performance, they serve to reveal weaknesses in the business, enable one to make comparisons that show trends, and help to maintain balance between the various activities of the business.

Budgetary control helps shape over-all plans, set performance standards, and co-ordinate activities in order to meet the goals of the business. Budgetary control is achieved through the use of forms which show at a glance both the budget estimates and up-to-date records based on actual performance. If there should be any discrepancies in the budgetary plan, they can be spotted immediately and necessary action can be taken to either correct the activities causing the differences or to make adjustments for the differences to other activities.

In later lessons you will be shown how to prepare two of the major budgets of any business -- the cash budget and the operating budget.

6. Summary

Budgeting is an important tool for every small business. It ensures that you make careful plans before you act and that you use foresight as well as hindsight.

Budgets give you a yardstick by which you can check results against expectations and estimates. They co-ordinate all the activities of the business and help you gain the most effective use of your resources with minimum costs.

Indicator

11. Ask the students if budgeting is important in the planning and controlling functions of management. Make sure that students use examples wherever possible in order to clarify their answers.

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB40 THE CASH BUDGET

INSTRUCTOR'S GUIDE

OVERVIEW

The amount of cash that a business needs often troubles managers of small businesses. And rightly so, because cash is the fuel necessary for operating the business.

The amount of cash necessary for financial health and growth depends on the type of business and on the individual owner. This lesson suggests some of the ways managers can find out whether or not they have an adequate cash supply.

Only by careful analysis of the business can this be determined. To ensure an adequate cash supply, the manager must keep records on which to base meaningful forecasts and reasonable budgets. Only then can he control and conserve cash so that it will be available at the right time, and so that he will know whether or not he will need to borrow funds.

The Cash Budget must be prepared with great care, as it predicts the inflow and outflow of cash. By preparing a cash budget, the student can foresee many of the cash needs of a business before they arise, and can determine sources of funds that can be used to meet these needs. If sources of funds are not available from inside the business, he can arrange for funds from outside agencies.

OBJECTIVE

The students will be able to prepare a Cash Budget.

FAB40

RESOURCES REQUIRED

1. Case FAB40-1, "Preparing a Cash Budget".

REFERENCE MATERIAL FOR INSTRUCTOR

1. Broom, Halsey N. and Longenecker, Justin G. Small Business Management. 2nd ed., Cincinnati, Ohio: South-Western Publishing Company, 1966, pp. 379 - 410.
2. Canadian Institute of Chartered Accountants. Management Aid for the Smaller Company. Toronto: The Canadian Institute of Chartered Accountants, 1962.
3. Sisk, Henry L. Principles of Management. Cincinnati, Ohio: South-Western Publishing Co., 1969, pp. 594 - 620.
4. "Cash Planning in Small Manufacturing Companies". Small Business Research Series No. 1, Washington, D.C.: Small Business Administration

METHODOLOGY

1. Do not hand out Readings immediately.

OBJECTIVE: THE STUDENTS WILL BE ABLE TO PREPARE A CASH BUDGET.

Stimulus

2. Ask the students to list on the flip chart the ways in which cash is used in a business.

   a. purchase of fixed assets
   b. purchase of inventory
   c. payment of expenses
   d. payment of liabilities.

   The students will likely give specific examples in each of these broad categories.

3. Ask the students to list on another flip chart the sources from which a business obtains cash to meet the payments listed previously.

   a. sales
   b. collection of accounts receivable
   c. loans.

   Again, the students will likely give specific examples of the types of resources.

Clarify Problem

4. Ask the students how a businessman can match expenditures with receipts in order to make sure he is going to have cash available when it is required. Discuss this question with the students. List their suggestions on the flip chart.

Provide Information

5. Hand out the Readings and read the Purpose and Introduction.

PURPOSE

In this lesson you will learn how to prepare a simple Cash Budget.

INTRODUCTION

If you, as a small business manager, neglect the task of financial planning, your business will run into difficulty; you will find yourself short of cash and unable to pay your bills. Cash management is essential if a business is to operate successfully. You must have money to meet ALL your commitments -- including withdrawals. Your cash position at any given time is a good indicator of your business's ability to grow. Even though other assets may be in good condition, they are no substitutes for cash. You cannot pay off debts with accounts receivable, inventory, new orders, nor with any capital asset. Many small business managers overlook the fact that in times of prosperity and expansion, they have to watch their cash more carefully than ever. Many put off studying their cash needs because they think it will be difficult and costly. Effective cash management, however, is often neither difficult nor costly.

6. Ask the students to describe in their own words what a budget is.

   a. A budget may be thought of as a statement of business goals expressed primarily in monetary terms.

   b. A budget is a plan showing the receipts expected during a given period and the expenditures required during that same period.

7. Read and discuss Section 1 of the Readings with the students, stressing the necessity for the manager to clearly distinguish between the two types of cash.

CONTENT

1. Two Types of Cash

Watching, planning, managing, and consuming cash can be both simple and direct. To begin, you need to clearly understand the differences between capital cash and working cash.

Capital cash is represented by the funds spent for buildings, fixtures, machinery, equipment, and tools; that is items that become fixed assets on your Balance Sheet. Sources of capital cash are investment, earned and retained profits from operations, and reserves set aside for depreciation.

Working cash is represented by the funds spent for materials, labour, and overhead; that is, all expense items occurring in the operation of the business. The principal source of working cash is income produced by the business.

Many small business managers fail to recognize the differences between capital cash and working cash. They do not understand the role that each kind plays in a business. As a result, they make mistakes in cash management.

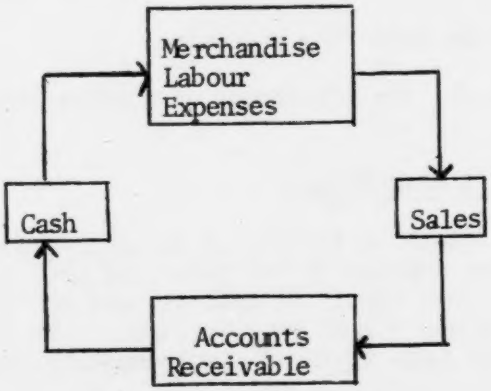
For example, failure to distinguish between capital cash and working cash -- and the requirements for each -- may lead the small business manager to invest in equipment or other fixed assets with the result that cash might have to be borrowed to pay current liabilities as they become due. The point is that cash should be conserved.

8. Read Section 2 of the Readings. Refer back to lesson FAB38, "Working Capital", in which the student learned how to prepare a Source and Application of Funds Statement. This statement shows what funds were used for, whereas the Cash Budget shows what funds will be used for.

2. Cash Flow

Working cash is that portion of your business's working capital that is in the form of cash. During the normal course of operations, cash "flows". That is, cash is used to purchase merchandise, services, etc.; the purchases are converted into receivables; and the receivables are paid off by the receipt of cash.

This is the complete cash-to-cash cycle:



Each business has its own time sequence for working cash to flow from costs to sales and back to cash. For good cash management, you have to know approximately the timing and amounts of cash you need at any given time to support any given volume of business.

You need only a few simple calculations to work out the pattern of your own cash cycle. Begin by classifying each of your major income and out-going items. For example, how long does it take to collect your money from credit sales? Check the number of days from the date a product was sold, to the date the payment was made. Using a similar approach, the flow of cash may be timed in practical terms for other items.

The cash cycle of any business is clear-cut evidence of how that business is operated. Analysis -- by tracing the flow and timing of cash, in through sales and out through purchases and expenses--will reveal the pattern of how the business uses its cash.

9. Read Sections 3 and 4 of the Readings.

3. The Cash Budget

The Cash Budget is simply a plan for cash receipts and expenditures during a given period. It is one of the most valuable financial tools at your disposal. By figuring out your cash needs and cash resources ahead of time, you place yourself in a better position to:

a. Take advantage of money-saving opportunities such as quantity discounts, cash discounts and so on;

b. Finance your seasonal business needs;

c. Develop a sound borrowing program;

d. Develop a workable program of debt repayment;

e. Provide funds for expansion;

f. Plan for the investment of surplus cash.

4. Preparing a Cash Budget

The length of the period to be covered by the Cash Budget depends on the nature of your business, how ample your supply of cash is, and how regularly cash flows into and out of your business. The form shown on the next page is for a simple monthly cash budget.

The groundwork for preparing a cash budget consists of estimating all cash receipts and cash payments expected during the budget period. Budgets must be carefully planned for cash sales, collection of accounts receivable, and other expected cash income. The same kind of planning must be done for each type of payment that makes up the expected cash expenditures. If the expected cash receipts total more than the expected cash payments, the difference is added to the expected cash balance at the end of the period.

FAB40

CASH BUDGET
FOR THREE MONTHS ENDING ________

	Month 1		Month 2		Month 3	
	Budget	Actual	Budget	Actual	Budget	Actual
EXPECTED CASH RECEIPTS						
1. Cash Sales						
2. Collections on Accounts Receivable						
3. Other Income						
4. Total Cash Receipts						
EXPECTED CASH PAYMENTS						
5. Raw Materials (or Merchandise)						
6. Payroll						
7. Accounts Payable Payments						
8. Assets						
9. Other Expenses						
10. Other Payments						
11. Total Cash Payments						
12. Expected Cash Balance at Beginning of Month						
13. Cash Increase or Decrease (#4-#11)						
14. Expected Cash Balance at End of Month (#12 + #13)						
15. Desired Cash Balance						
16. Short-term Loans Needed (#15-#14) if #15 is larger)						
17. Cash Available for Short-term Investment (#14-#15 if #14 is larger)						

These budgets are based on experience and on the goals you have set for your business. You must also decide on the size of the cash balance that you need to maintain. This too, is based on experience. You might, for instance, decide that a desirable level is reached when cash is equivalent to the sales of a certain number of days. If the cash balance at the end of the budgeted period is less than this amount, some short-term borrowing or changes in plans may be necessary. By bringing this to your attention, the cash budget gives you time to consider fully all the possible courses of action. If, on the other hand the cash balance is larger than you need, the excess can be invested in marketable securities.

10. Using the following example, illustrate how the Cash Budget is prepared.

	Last Year's Figures	Estimated Changes		Estimated Figures
	$	%	$	$
a. **Cash Sales**				
July	6,100.00	+7%	427.00	6,527.00
August	6,000.00	+7%	420.00	6,420.00
September	7,000.00	+10%	700.00	7,770.00
b. **Collections on Accounts Receivable**				
July	800.00	+25%	200.00	1,000.00
August	500.00	+25%	125.00	625.00
September	1,000.00	+24%	250.00	1,250.00
c. **Other Receipts**				
Sale of Old Equipment in September	-------	---	-----	500.00
d. **Cash Purchases**				
July	500.00	---	-----	500.00
August	500.00	---	-----	500.00
September	600.00	---	-----	600.00

e.	Payments on Accounts Payable				
	July	3,000.00	+10%	300.00	3,300.00
	August	2,500.00	+10%	250.00	2,750.00
	September	3,500.00	+10%	350.00	3,850.00
f.	Payroll				
	July	500.00	---	-----	500.00
	August	500.00	---	-----	500.00
	September	500.00	---	-----	500.00
g.	Loan Payment				
	July	200.00	---	-----	200.00
	August	200.00	---	-----	200.00
	September	200.00	---	-----	200.00
h.	Purchase of New Equipment				
	July	------	---	-----	500.00
	August	------	---	-----	750.00
	September	------	---	-----	250.00
i.	Operating Expenses				
	July	2,300.00	+10%	230.00	2,530.00
	August	2,000.00	+10%	200.00	2,200.00
	September	2,600.00	+10%	260.00	2,860.00

Additional Information

Cash Balance at beginning of July Budget period was $200.00.
Credit Sales averaged $1,000.00 a month.

Cash Budget
For Three Month Period Ending September 30, 19--

		July	August	September	Total
Expected Cash Receipts					
1.	Cash Sales	$6,527.00	$6,420.00	$7,700.00	$20,647.00
2.	Collections on Accounts Receivable	$1,000.00	$ 625.00	$1,250.00	$ 2,875.00
3.	Other Receipts	-----	-----	$ 500.00	$ 500.00
4.	Total Cash Receipts	$7,527.00	$7,045.00	$9,450.00	$24,022.00

Expected Cash Payments

5.	Cash Purchases	$ 500.00	$ 500.00	$ 600.00	$ 1,600.00
6.	Cash Payments on Accounts Payable	$3,300.00	$2,750.00	$3,850.00	$ 9,900.00
7.	Payroll	$ 500.00	$ 500.00	$ 500.00	$ 1,500.00
8.	Loan Payment	$ 200.00	$ 200.00	$ 200.00	$ 600.00
9.	Purchase of New Equipment	$ 500.00	$ 750.00	$ 250.00	$ 1,500.00
10.	Operating Expenses	$2,530.00	$2,200.00	$2,860.00	$ 7,590.00
11.	Total Cash Payments	$7,530.00	$6,900.00	$8,260.00	$22,690.00
12.	Balance of Cash at Beginning of Month	$ 200.00	$ 197.00	$ 342.00	$ 200.00
13.	Increase (Decrease) Cash (#4 minus #11)	(3.00)	$ 145.00	$1,190.00	$ 1,332.00
14.	Cash Balance at End of Month (#12 plus #13)	$ 197.00	$342.00	$1,532.00	$ 1,532.00

11. Using the information in point 10 and the following information, prepare Profit and Loss Statements for the three months in order to illustrate that a Net Profit does not necessarily mean an increase in cash.

Additional Information:

a. Credit Sales estimated at 25% of Cash Sales.

b. Inventory estimated at beginning of month:

July	$6,700.00
August	$6,900.00
September	$7,500.00

c. Inventory estimated on hand September 30 at $4,000.00.

d. Credit Purchases:

July	$2,950.00
August	$3,850.00
September	$4,200.00

Profit and Loss Statement
For Three Month Period Ended September 30, 19__

	July	August	September	Total
Income				
Cash Sales	$6,572.00	$6,420.00	$7,700.00	$20,647.00
Credit Sales	$1,631.00	$1,605.00	$1,925.00	$ 5,161.00
Other Revenue	-	-	500.00	$ 500.00
Total Income	$8,158.00	$8,025.00	$10,125.00	$26,308.00
Cost of Goods Sold				
Inventory, Beginning	$6,700.00	$6,900.00	$7,500.00	$ 6,700.00
Purchases	$3,450.00	$4,350.00	$4,800.00	$12,600.00
Cost of Goods Available for Sale	$10,150.00	$11,250.00	$12,300.00	$19,300.00
Less:Inventory,Ending	$ 6,900.00	$ 7,500.00	$ 4,000.00	$ 4,000.00
Cost of Goods Sold	$ 3,250.00	$ 3,750.00	$ 8,300.00	$15,300.00
Gross Profit	$ 4,908.00	$ 4,275.00	$ 1,825.00	$11,007.00
Expenses				
Payroll	$ 500.00	$ 500.00	$ 500.00	$ 1,500.00
Operating	$ 2,530.00	$ 2,200.00	$ 2,860.00	$ 7,590.00
Total Expenses	$ 3,030.00	$ 2,700.00	$ 3,360.00	$ 9,090.00
Net Profit (Loss)	$ 1,878.00	$ 1,575.00	$(1,535.00)	$ 1,917.00

Indicate to the students that the Profit and Loss Statement shows Net Profits being made in July and August. The Cash Budget, however, shows a decrease in cash in July and an increase in cash in August. Thus, a Net Profit does not necessarily mean that the cash balance will increase. The Profit and Loss Statement also shows a Net Loss in September, while the Cash Budget shows an increase in the cash balance. Discuss this with the students.

12. Read and discuss Section 5 of the Readings with the students.

5. Summary

The management of cash is just as important as the management of sales, production, or merchandising. Many businesses have failed because of mismanagement of cash. The techniques described in this lesson -- cash flow and Cash Budget -- serve many purposes. They help you to keep last-minute decisions and surprises at a minimum; to set standards of performance for various activities of your business and to anticipate financial needs and the effects of policy changes. The Cash Budget and cash flow are valuable aids to use in discussions with prospective lenders. They help you answer such questions as these:

a. Will I need additional money?
b. When will I need it?
c. How long will I need it?
d. How much do I need?
e. Where can I get it?
f. How much will it cost?
g. If I borrow it, how can I repay it?

Indicator

13. Hand out case FAB40-1, "Preparing a Cash Budget". Read the case and have the students prepare a Cash Budget using the information provided in the case.

Murdock Tents Ltd.
Cash Budget
for January, February, March, and April 19__.

Expected Cash Receipts	January $	February $	March $	April $	Total $
1. Collections on Accounts Receivable	-	27,000.00	23,800.00	22,200.00	73,000.00
2. Other Receipts	10,000.00				10,000.00
3. Total Cash Receipts	10,000.00	27,000.00	23,800.00	22,200.00	83,000.00
Expected Cash Payments					
4. Material Purchases	1,200.00	1,200.00	1,200.00	400.00	4,000.00
5. Payments on Accounts Payable (8 oz. Ducking)	4,000.00	16,800.00	13,600.00	12,000.00	46,400.00
6. Labour Costs:					
Plant	2,560.00	2,688.00	2,944.00	2,432.00	10,624.00
Cutting	4,000.00				4,000.00
Hauling	750.00				750.00
Finishing	1,320.00	1,386.00	1,518.00	1,254.00	5,478.00
Total Labour Costs	8,630.00	4,074.00	4,462.00	3,686.00	20,852.00

		January $	February $	March $	April $	Total $
7.	Wages:					
	J. Fisher	550.00	550.00	550.00	550.00	2,200.00
	H. Day	450.00	450.00	450.00	450.00	1,800.00
	M. Taylor	450.00	450.00	450.00	450.00	1,800.00
	Total Wages	1,450.00	1,450.00	1,450.00	1,450.00	5,800.00
8.	Other Expenses:					
	Travel	200.00	200 00	200.00	400.00	1,000.00
	Advertising	480.00	300.00	300.00	500.00	1,580.00
	Heat, light, power	180.00	180.00	150.00	150.00	660.00
	Repairs	50.00	50.00	50.00	75.00	225.00
	Other	600.00	325.00	125.00	325.00	1,375.00
	Total Other Expenses	1,510.00	1,055.00	825.00	1,450.00	4,840.00
9.	Loan Payments	-	1,300.00	1,300.00	1,300.00	4,900.00
10.	Total Cash Payments:	16,790.00	25,879.00	22,837.00	20,286.00	85,792.00
11.	Increase (Decrease) Cash (#3 minus #10)	(6,790.00)	1,121.00	963.00	1,914.00	(2,792.00)
12.	Cash Beginning	11,000.00	4,210.00	5,331.00	6,294.00	11,000.00
13.	Cash Ending (#12 plus #11)	4,210.00	5,331.00	6,294.00	8,208.00	8,208.00

14. Read and discuss the questions at the end of the case.

Answers to these questions:

a. Questions #1, 2 and 3

	January	February	March	April	Total
Cash Beginning	11,000.00	4,210.00	5,331.00	6,294.00	11,000.00
Cash Receipts	10,000.00	27,000.00	23,800.00	22,200.00	83,000.00
Cash Payments	16,790.00	25,879.00	22,837.00	20,286.00	85,000.00
Cash Ending	4,210.00	5,331.00	6,294.00	8,208.00	8,208.00

b. Question #4

Any business should have a carefully worked out cash budget to anticipate the financial strains which the operations will place on the business. It will point out areas which call for careful attention in order not to strain the borrowing capacity of the business.

c. Question #5

These forecasts are on the basis of producing 600 tents a month, but it should be noted that all months do not have the same number of working days. The difference in working days might lead to slack time which can be used to increase production in one month in order to meet the demands of the next.

Work stoppages for labour problems, material delivery problems or production problems have not been built into the estimate. If one of the above problems occurred, it could move costs much higher than anticipated.

d. Question #6

It is not too practical to forecast further because Murdock Tents Ltd. is not sure what production and sales volume they will be facing, nor the price at which they will be selling tents.

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB40 THE CASH BUDGET

CASE FAB40-1

PREPARING A CASH BUDGET

Murdock Tents Ltd. had been in operation about three months when it received an order for 2,000 tents which would be marketed by a large store under its own brand name. The order was received on January 15, and it was to be completely filled by April 15.

Special payment arrangements were made with Murdock Tents Ltd. in order to help finance the production of the tents. The large store agreed to advance $10,000.00 by January 1, with all following payments to be made within 30 days of delivery to its central warehouse. These arrangements were agreed to because of the price at which Murdock agreed to sell the tents.

One condition of this arrangement was that the large store would receive a detailed report of all the money in the business at the present time, all the possessions which the business owned, and all expenditures and receipts which the business would have until the final shipment was filled in April.

Jacob Fisher, the manager of Murdock Tents Ltd., began to prepare a cash budget for the period January to April. He wasn't too sure where to get all the information, but he knew that the records-to-date would be very useful. Production figures and costs would be available from Hap Day who was in charge of the actual production, and Manny Taylor, the salesman, could give an accurate estimate of the sales expenses. Jacob could find out what money had already been spent and how much more would have to be spent on purchases. Between the three men, they could draw up an estimate of incidental expenses.

An approximation of expected receipts would be easy to estimate as this would be the value of the shipments of the finished tents, delayed 30 days.

The major expenditures to date had been for fixed assets and, from January 15 to May, the major expenditures would be for materials and for wages and salaries. By estimating the use of materials in the plant, Jacob knew that he could estimate the timing of the expenditures for materials. Because Hap knew his production schedule, he would not find it difficult to estimate expenditures for wages and salaries.

Jacob's first task was to determine how much had already been spent. To make sure he used accurate figures, he obtained this information directly from his books. The expenditures to date were:

$1,500.00 - lathe
$ 500.00 - band saw
$1,200.00 - renovation of shop
$ 500.00 - dip tank, saws, presses, etc.
$ 300.00 - miscellaneous expenditures.

The money for these expenditures had been provided by a $15,000.00 loan received from the government in December. After payment of the above expenses, a bank balance of $11,000.00 was on hand on January 1. On January 15 the initial payment of $10,000.00 from the large store was deposited to the bank account of Murdock Tents Ltd. Further receipts would be received each month following the shipment of tents to the large store. Hap Day's production schedule called for the manufacture of 600 tents per month. There were both large and small tents to be manufactured; the large tents were to be produced first and would be sold at $45.00 a tent, the small tents would sell at $37.00 a tent.

The order from the large store called for 800 large tents and 1,200 small tents, with shipments to start in January. Working on this basis, and knowing both the price to be received for each type of tent, and the month production, Jacob calculated his receipts.

1. ESTIMATED RECEIPTS

January:	------
February:	Payment for 600 large tents shipped in January 600 X $45.00 = $27,000.00
March:	Payment for 200 large tents and 400 small tents shipped in February 200 X $45.00 = $ 9,000.00 400 X $37.00 = 14,800.00 $23,800.00

April: Payment for 600 small tents shipped in March
600 X $37.00 = $22,200.00

2. ESTIMATED EXPENDITURES

After estimating the receipts that could be expected, Jacob had to estimate the probable expenditures that would have to be met. The major expenditures would be for materials, wages and salaries.

a. Material

A large tent used 70 yards of 8-ounce ducking, while a small tent required 50 yards of 8-ounce ducking. They presently had 10,000 yards of 8-ounce ducking on hand. It was decided that a minimum inventory of 10,000 yards would be carried at all times. The present inventory had arrived December 28 and payment was to be made in January. All additional orders would be paid in the month following receipt of the shipment.

The following amount of material would be required for production scheduled for January, February, March and April:

January	600 X 70 yards = 42,000 yards
February	200 X 70 yards = 14,000 yards
	400 X 50 yards = 20,000 yards
March	600 X 50 yards = 30,000 yards
April	200 X 50 yards = 10,000 yards

Eight ounce ducking could be purchased at 40 cents a yard. Additional material such as ropes, cords, fasteners, etc., could be purchased at a cost of $2.00 a tent. They could be ordered as required, and would be paid upon receipt.

b. Labour

Eight people would be involved in the job of sewing and assembling the tents. They would be paid $2.00 an hour for an eight-hour day. The working days per month are:

January	20 working days
February	21 working days
March	23 working days
April	19 working days

The outside jobs of cutting tent pegs and poles would require eight men working 20 days in January. They would be paid $2.50 an hour for a 10 hour day.

Two men would be required to haul the logs to the plant site. They would work 15 working days, and would be paid $2.50 an hour for a 10 hour day. This, too, would be done in January. It would take three men working on the lathes and the band saw to turn out the poles and pegs. These men also would be responsible for sanding and other finishing operations. They would be paid $2.75 an hour for an eight hour day, and would work the same schedule as the people doing the sewing and assembling.

Hap Day and Manny Taylor, who are in charge of the plant and the outside work, would be paid a monthly salary of $450.00 each. Jacob Fisher, the manager, would receive $550.00 per month.

c. Other Expenses

Other expenses expected during the period would be:

	January	February	March	April
Travel	200.00	200.00	200.00	400.00
Advertising	480.00	300.00	300.00	500.00
Heat, Light, Power	180.00	180.00	150.00	150.00
Repairs	50.00	50.00	50.00	75.00
Other	600.00	325.00	125.00	325.00
Totals	1,510.00	1,055.00	825.00	1,450.00

d. Government Loan

Beginning in February, Murdock Tents Ltd. would make monthly payments of $1,300.00 to repay the $15,000.00 government loan.

e. Short-Term Investments

Murdock Tents Ltd. decided that they should have a minimum cash balance of $2,000.00 to meet unexpected expenditures. Any cash over this amount would be put into short-term investments.

INSTRUCTIONS

Using the information contained in the case, prepare a cash budget for Murdock Tents Ltd. for the period January to April.

Questions for Discussion

1. How much money will Murdock Tents Ltd. have on the first of February? How much money will they receive during January? How much money will they spend during January? How much money will they have at the end of January?

2. Remembering that the cash balance at the end of January is the opening cash balance at the first of February, answer the questions in #1 for the months of February, March and April.

3. What were the total amounts of money paid out and received during the first four months of the year?

4. Will this cash budget be of any use to Murdock Tents Ltd.? How?

5. How accurate is the projection of cash requirements? What could go wrong in the four month period that would make the estimates inaccurate?

6. Is it possible to carry the projections on for the remaining eight months of the year? Why or why not?

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB41 THE OPERATING BUDGET

INSTRUCTOR'S GUIDE

OVERVIEW

The prospective manager must be very conscious of his responsibility in planning and control. The future of the business depends on a manager's ability in these areas. No amount of hard work in a manual sense can replace these responsibilities.

This lesson and future lessons dealing with projected financial statements discuss the operating budget as a tool of financial planning and control. The student may find the lesson content abstract unless the instructor applies the ideas to concrete examples and illustrations with which the student is familiar. If the students have prospective businesses in mind, it will be ideal for them to prepare a budget for those businesses. If they do not have prospective businesses of their own to work on, the instructor can provide hypothetical cases or have the students prepare a budget for some business which is required on their reserve or in their community.

OBJECTIVE

Given the necessary information, the students will be able to prepare an operating budget for a small business.

REFERENCE MATERIAL FOR INSTRUCTOR

1. Broom, H. N. and Longenecker, J.G. Small Business Management. 2nd ed. Cincinnati: Smith-Western Publishing Company, 1966, ch. 16.

FAB41

RESOURCES REQUIRED

1. Case FAB41.

OBJECTIVE: GIVEN THE NECESSARY INFORMATION, THE STUDENTS WILL BE ABLE TO PREPARE AN OPERATING BUDGET FOR A SMALL BUSINESS.

METHODOLOGY

1. Hand out Readings.
2. Read Purpose and Introduction and discuss.

PURPOSE

This lesson will examine the operating budget for a business. The operating budget is the overall financial plan for the business for a certain period of time.

INTRODUCTION

At the beginning of the course, considerable emphasis was placed on planning a business. You studied planning as related to sales, profit, personnel and production.

In lesson FAB39, Planning and Budgeting, you reviewed planning as related to budgeting in general. You saw that budgeting involves recording the business financial plan on paper so as to prepare for a future course of action.

In lesson FAB40, you learned that the cash budget is the plan which explores the cash needs of the business. It attempts to foresee the sources and amounts of expenditure or cash outlays which the business will need for payment of expenses, purchase of merchandise, purchase of equipment, drawings of the owner-manager, and payment of debts. It then foresees the source of these cash requirements: merchandise sales, accounts receivable, sale of assets and the possibility of loans if required.

The cash budget says nothing about the profitability of a business. It merely foresees whether the business will have sufficient cash when it requires it.

The operating budget goes further than this. It plans ahead to determine whether the business will be profitable or not.

3. Ask students to list the items that they would expect to go into an operating budget.

4. Ask what is needed in planning a business which is not in the cash budget. How does a cash budget differ from an operating budget.

5. Read Sections 1 and 2.

CONTENT

1. What is an Operating Budget?
The operating budget is the financial plan of a business concern which projects the business' profitability.

An operating budget for a retail business involves the calculation of expected:

a. sales
b. the cost of sales
c. expected gross profit
d. the amount of expenses anticipated to finally arrive at the level of profit expected.

An operating budget is really the calculation or estimation of a Profit and Loss Statement projecting the future of the business.

The budget for a manufacturing concern is somewhat more complex. It requires the following budgets: a sales budget, a material budget, labour budget, manufacturing overhead budget and a management overhead budget. These budgets are then all gathered together into a comprehensive or master budget which reflects the financial plan for the year.

2. Cash Budget and Operating Budget compared.
A business must foresee more than its cash needs. It must plan its financial future to determine whether a profit can be made. It is quite possible for a business to obtain the cash it requires through new loans but if the business is not making money, it will eventually go broke. On the other hand, there is a need for cash budgets since a business can be making money and be profitable and yet find itself without the necessary cash to pay its bills.

This can easily happen if the working capital or current assets are used for financing long term debt or if too much money is left in accounts receivable which cannot be collected.

The operating budget plans the course of action which is desired. It is essential to plan ahead for a profitable business. It is also important in control of business expenses and overall performance. At the end of the month or at the end of a year, the business can be analyzed to determine if in fact the budget or financial plans have been realized.

If the actual business operation is less favorable than the budget had foreseen, the manager will want to study the reasons for this poor showing. The budget can also help identify where a business is going wrong. It is a sort of roadmap which can guide the business.

6. Discuss Readings and compare to ideas given in points 3 and 4 above.

7. Read Section 3.

3. How to Prepare an Operating Budget.
The preparation of an operating budget involves close examination of all expected revenue and expenses for the business. It resembles a profit and loss statement in form and appearance. It differs in that the profit and loss statement is a statement of the actual financial operation of the business for a period of time while the budget is a forecast or estimate of the anticipated business operations for a certain period of time. The budget is a projection of the business operation into the future. In later lessons you will study projected financial statements which are budgets which cover one or more accounting periods. The projected statements or budgets are essential documents to support the application for a loan. The lending agency uses the budget or projected financial statement as a basis in granting the loan and determining a business' loan repayment capability.

The information for a budget can be obtained from historical data (past records of the business) if the business has been in operation for some time. If the budget is for a new business, the information required for the budget may be obtained from a number of sources. A study of analysis of the market potential is a starting point to establish the volume of sales.

Lending agencies, government personnel, similar businesses, chartered accountants, consultants are other sources of information for a budget.

The first part of the budget should be a dollar sales forecast. This is based on the market analysis of the needs of the area. Closely tied to the sales forecast is a merchandise forecast which outlines the type, quantity, quality and price of merchandise or inventory required as well as the time when it is required.

This plan of sales and merchandise will give the business its sales volume and cost of sales. It also provides the gross profit which is possible.

The budget must then estimate all the expenses involved in operating the business. This will include cash expenses as well as non-cash expenses such as bad debt expense and depreciation. The purchase of equipment is a necessary part of planning but is not part of the operating budget except for the depreciation expense on this equipment. The cash budget however does consider the cash required for the purchase of equipment.

Considerable work is necessary to estimate the level of estimated expenses. It is important not to forget some category of expenses. A review of the expenses of a similar business will be useful in assuring yourself of not forgetting any major item.

8. Using various illustrations such as a service station, laundromat, a general store, a pool hall, a commercial fishing operation, etc., have the students explain what would be involved in budgeting for each. Have students work in small groups. Each group should take a different business. Have them identify and list each item of revenue and expense which would be involved in an operating budget and have them determine how they could obtain the information. Have them also consider methods which might be used as a check on the accuracy of their original source.

   When the work is completed have someone from each group list the expense and revenue items on a flip chart. Have them present their source and cross check for these items. Then encourage the other groups to add to the work presented.

9. Ask the students of what use the budget will be.

Try to get them to explore the planning aspect involved in the budget. The budget then serves as a guide and a method of control.

10. Read Section 4 and discuss.

4. Use of the Budget

The first use of the budget is to determine whether a business is likely to be profitable or not before actually starting the business. Many businesses would not have the problems they have if proper budgets had been prepared. Businessmen who feel they cannot afford the time for a budget should think whether they can afford not to foresee the future profitability of the business.

In addition to helping plan the financial aspect of the business, the budget is an important tool of control. Once a plan for the business is made out on paper, the businessman can use this plan to compare the actual operation to the plan. If there is a difference (variance) the businessman will want to investigate the reason and correct the problem or change the budget if the difference is due to changes in economic conditions. If there is a downturn in economic conditions, the business may have to cut back in expenses or services. If there is an upturn in the economy, the budget should be changed to reflect this and so make a new budget to capitalize on the greater profits possible.

While the budget is a plan of a future course of action, there must still be flexibility in its use. It must be adjusted to changing circumstances. The revised budget will then be the new guide.

11. Read Section 5 and discuss.

5. Budgeting Time Span

A budget can be made for any time periods devised. However, it is a common practice to make a budget for a year basing it on a budget for each month. The business can use the budget throughout the year as a guide. The budget should reflect seasonal changes which are expected. It thus provides a guide for stock or inventory requirements and staff needs.

Budgets or projected statements as they are also called can be made for two, three or five years. These longer budgets are usually used by lending agencies who wish to calculate the business' repayment ability.

12. Read Section 6 and compare items to those suggested by students in point 8 above.

6. Budget Illustration

Below you have a budget prepared by an operator of a service station on a reserve. The figures given here are those of the yearly budget.

Jake's Service Station
Budget for the year 1973

Revenue	Planned		Actual
Gas Sales (90,000 gals)	$48,000.00		
Tune-ups and minor repairs	2,800.00		
Oil and grease etc.	3,570.00		
Towing	450.00		
Total revenue		$54,820.00 (100%)	
Cost of Sales			
Inventory at beginning	$ 6,000.00		
Gas purchase	40,000.00		
Grease and oil	1,975.00		
Accessories	1,575.00		
	$49,550.00		
Less inventory at end of year	8,000.00		
Cost of Sales		$41,550.00 (75%)	
Gross Profit		$13,270.00 (25%)	
Expenses			
Helper's salary	$ 3,080.00		
Heating	480.00		
Gas for truck	385.00		
Electricity	300.00		
Repairs and maintenance	200.00		
Insurance	265.00		
Telephones	180.00		
Services	50.00		
Miscellaneous	400.00		
Depreciation	1,500.00		
Interest	2,100.00		
		$8,940.00 (17%)	
NET PROFIT		$4,330.00 (8%)	

13. Read Section 7.

7. Summary

There is no easy solution to preparing a budget. It requires a lot of work to obtain the best estimates possible. However, without the budget (financial plan) the businessman operates his business without a clearly spelled out financial target in mind. The manager would not know until the year end or until he is in financial trouble whether the business is profitable or not nor whether it is doing as well as expected since he does not have a plan to guide him or a basis to compare to.

The manager of a business will certainly agree that it is better to make mistakes on paper than to have them actually happen. Budgeting helps the manager look at different possibilities or alternatives which might make the business profitable. If the businessman tries out these different alternatives before he puts them down on paper, he may find he has made serious mistakes which he had not foreseen.

It should also be remembered that the planning aspect involved in a budget is only part of the use of the budget. The other part is to compare the actual results to the budget; to analyze the results of the operation as compared to the budget. Each new budget is easier and provides more information for the job of management.

Indicator

14. Hand out Case FAB41-1. Have student in small groups prepare an operating statement for Masterman's General Store for 1973 using the information provided in the case.

    After students have calculated the budget, have each group present their budget and give the reasons for their results. Budgets may differ depending on assumptions made. Point out that budgets are normally rounded out so as not to work with cents.

    Note: The write off of $2000.00 bad debt expense is charged against the allowance for bad debt and is not an expense for 1973. An estimate of bad debt expense in 1973 may be made in proportion to the reduction in charge sales or even less if greater care is taken in selecting credit customers.

FAB41

Case Solution

Masterman's General Store
Budget Oct. 1, 1972 - Sept. 30, 1973.

Sales	Planned		Actual
Cash sales	$50,000.00		
Charge sales	15,000.00		
Total sales		$65,000.00	
Cost of Goods Sold			
Inventory beginning.	$14,009.00		
Merchandise Purchases	39,541.00		
Freight	5,200.00		
Inventory ending	12,000.00		
Cost of Goods Sold		46,750.00 (75%)	
Gross Margin		18,250.00 (25%)	
Expenses			
Advertising	$ 120.00		
Barge operation	600.00		
Bank charges	35.00		
Bad Debt Expense	900.00		
Depreciation	2,143.00		
Heat, light & power	800.00		
Fire Insurance	238.00		
Barge	30.00		
Interest on loan	130.00		
Office & store supplies	330.00		
Repairs & maintenance	460.00		
Wages - clerk	2,365.00		
General labour	400.00		
Taxes & levies	10.00		
Telegrams & postage	75.00		
Travelling	170.00		
Staff benefits	140.00		
Rent on warehouse	70.00		
Miscellaneous	75.00		
Total expenses	$ 9,091.00	9,091.00	
Operating profit or less		$ 9,159.00	
Other income		2,000.00	
Net Operating Profit		$11,159.00	
Gain on Sale of fur		2,500.00	
NET INCOME		$13,659.00	

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB41 THE OPERATING BUDGET

CASE FAB41 - 1

MASTERMAN'S OPERATING BUDGET

John Masterman just completed a thorough analysis of his store's operations over the past two years. He now thought he had a much better "feel" for the financial side of his business. John was not too pleased with the store's profits over the past two years.

John spent long hours at the store in order to do the bookkeeping, make collections on accounts receivable, bargain with his suppliers for better credit terms, deal with salesmen, handle customers, check inventories and do the many other jobs that had to be done.

John enjoyed being his own boss and meeting people. However, there were some jobs he didn't enjoy doing that had to be done. John's poor profit picture forced him to develop a plan that would produce more profit. Since he couldn't work more hours himself, he had to develop a scheme for better management. One method of improving management was through the use of budgets.

John decided to prepare an operating budget for next year (1973). On the following pages are the financial statements prepared for the past two years' operations.

FAB41

Masterman's General Store
Comparative Profit and Loss Statement
for the two years ended September 30, 1972.

		1971		1972	
		$	%	$	%
Sales					
(1)	Cash	39,051.87		49,851.50	
(2)	Charge	14,394.37		24,309.11	
(3)	Total Sales	53,446.24	100.0	74,160.61	100.0
Cost of Goods Sold					
(4)	Inventory - Beginning	9,533.00		14,009.00	
(5)	Merchandise Purchases	43,049.10		59,627.50	
(6)	Freight	4,336.05		5,835.64	
		56,918.15		79,472.14	
(7)	Inventory - Ending	14,009.00		16,318.00	
(8)	Cost of Goods Sold	42,909.15	80.3	63,154.14	85.2
(9)	GROSS MARGIN (3 minus 8)	10,537.09	19.7	11,006.47	14.8
Expenses					
(10)	Advertising	26.47		—	
(11)	Barge Operation	42.04		618.40	
(12)	Bank Charges	22.09		35.97	
(13)	Bad Debt Expense	1,410.25		1,484.15	
(14)	Depreciation Expense	2,895.00		2,597.00	
(15)	Heat, light, power	773.28		821.78	
(16)	Insurance: Fire	238.07		238.07	
(17)	Barge	30.00		30.00	
(18)	Interest on Overdue Accounts Payable	299.02		—	
(19)	Interest on Loan	130.25		130.25	
(20)	Office & Store Supplies	548.66		177.17	
(21)	Repairs & Maintenance	487.00		274.87	
(22)	Wages: Clerk	2,150.00		2,150.00	
(23)	General Labour	275.12		672.00	
(24)	Taxes and Licences	10.00		10.00	
(25)	Telegrams and Postage	59.91		80.03	
(26)	Travelling	173.65		166.76	
(27)	Staff Benefits	137.07		137.07	
(28)	Rent on Warehouse	70.00		70.00	
(29)	Miscellaneous	130.00		41.17	
(30)	Total Expenses	9,907.88	19.1	9,734.69	13.5

(31)	Operating Profit/Loss (9 minus 30)	629.21	0.6	1,271.78	0.3
(32)	Other Income	1,841.84		1,621.32	
(33)	Net Operating Profit (31 plus 32)	2,471.05	4.1	2,893.10	3.5
(34)	Gain on Sale of Fur	2,207.33		2,501.16	
(35)	Net Income (33 plus 34)	4,678.38	8.1	5,394.26	6.9

Masterman's General Store
Comparative Balance Sheet
for the two years ended September 30, 1972.

	1971 $	1972 $
Assets		
Current Assets		
Cash on hand	853.72	297.48
Bank account	208.22	127.12
Accounts Receivable: Customers	13,184.08	14,433.29
Government	4,516.91	3,312.57
Allowance for Bad Debts	(8,203.38)	(9,687.53)
Inventory, September 30	14,009.00	16,318.00
Furs on Hand, September 30	-----	-----
Drums	1,190.00	1,190.00
Total Current Assets	25,758.55	25,990.93
Fixed Assets		
Buildings	18,057.90	18,057.90
Accumulated Depreciation	(1,805.00)	(3,420.00)
Equipment and Fixtures	5,450.30	5,450.30
Accumulated Depreciation	(1,090.00)	(1,962.00)
Total Fixed Assets	20,613.20	18,126.20
TOTAL ASSETS	46,371.75	44,117.13

FAB41

Liabilities and Net Worth		
Liabilities		
Current Liabilities		
Income Tax Payable	50.26	50.26
Unemployment Insurance Payable	48.96	48.96
Trade Accounts Payable	11,145.82	10,376.15
Total Current Liabilities	11,245.04	10,475.37
Long-Term Liabilities		
Loan - Bank	6,841.14	6,157.14
Loan - Government	9,850.00	8,900.00
Total Long-Term Liabilities	17,691.14	15,057.14
Total Liabilities	28,936.18	25,562.51
Net Worth		
Net Worth - September 30	2,500.00	2,435.57
Grant - Government	15,000.00	15,000.00
Current Profit	4,678.38	5,394.26
	22,178.38	22,829.83
Drawings - J. Masterman	4,742.81	4,295.21
Present Net Worth	17,435.57	18,534.62
Total Liabilities and Net Worth	46,371.75	44,117.13

Masterman's General Store
Statement of Fur Operations
for the two years ended September 30, 1972.

	1971	1972
	$	$
Fur Sales	9,374.90	9,675.34
Less: Cost of Fur Sold	7,167.57	7,174.18
Gain on Sale of Fur (carried to Statement of Operations	2,207.33	2,501.16

FAB41

Masterman's General Store
Schedule of Other Income
for the two years ended September 30, 1972.

	1971	1972
	$	$
Barge Rentals	1,841.84	1,621.32
Total Other Income (carried to Statement of Operations)	1,841.84	1,621.32

Additional Information:

John expects that his cash sales will remain at the same level for the year 1973. He estimated $50,000.00 from cash sales.

John is disturbed about the amount of accounts receivable he wrote off as bad debts the past two years. He was not strict with credit, and he has made little effort to collect outstanding amounts. John is going to try to limit his credit sales to approximately 30% of cash sales. During the past two years his charge sales were approximately 50% of cash sales.

With the new credit policy John estimates that his accounts receivable will be $20,000.00. This will be made up of $15,000.00 customer accounts receivable and $5,000.00 government accounts receivable. He thinks that he will have to write off almost $2,000.00 of the 1972 accounts receivable as bad debt expense.

John hopes to cut his inventory on hand to about $12,000.00 by September 30 next year. He won't need as large an inventory because of the cut back in charge sales.

By buying in bulk and using other suppliers John thinks he will be able to buy his merchandise at better prices. This, in addition to a change in pricing policy, should give a gross margin of 25%. John estimates the expenses as follows:

Advertising	$120.00
Barge operation	600.00
Bank charges	35.00
Heat, light, power	800.00
Insurance, same as last two years	
Insurance on loan	130.25
Office and Store supplies	330.00
Repairs and Maintenance	460.00
Wages: Clerk (10% increase)	
General Labour	400.00

Taxes and Licences	10.00
Telegrams and Postage	75.00
Travelling	170.00
Staff Benefits	140.00
Rent on Warehouse	70.00
Miscellaneous	75.00

Depreciation

Book Value At Beginning of Period	Rate of Depreciation	Depreciation Expense	Accumulated Depreciation
Buildings:	10%		
$18,057.90		$ 1,805.00	$ 1,805.00
16,152.90		1,615.00	3,420.00
Equipment & Fixtures	20%		
$ 5,450.30		$ 1,090.00	1,090.00
4,360.30		872.00	1,962.00

Loan Payments

Principal Owing	Principal Payment	Interest Payment	Payment Total
Bank:			
1971: $6,841.14	$ 684.00	$ 52.10	$ 736.10
6,157.14	684.00	52.10	736.10
Government:			
1971: $9,850.00	$ 950.00	$ 78.15	$1,028.15
1972: 8,900.00	950.00	78.15	1,028.15

John estimates that his accounts payable will be approximately 20% of total sales. He expects to receive about $2,000.00 net from barge operations and $2,500.00 net from the sale of furs.

FAB41

INSTRUCTIONS

1. Using the information in the above case, prepare an Operating Budget for Masterman's General Store for the budget period September 30, 1972 to September 30, 1973.

CASE

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB42 PROJECTED FINANCIAL STATEMENTS

INSTRUCTOR'S GUIDE

OVERVIEW

Budgets are prepared so the businessman can determine where he is going to spend money and earn money in the up-coming budget period. The main reason for preparing budgets is to plan the most efficient ways to spend money to meet the goals of the business. In order to determine whether or not the plans as laid down in the budgets are going to meet the goals of the business, the businessman must have some means of measuring the overall results of his plans. The means most commonly used in business is the preparation of projected financial statements. These statements (the projected Balance Sheet and the projected Profit and Loss Statement) will show the businessman the financial condition and net income he can expect from up-coming operations if he adheres to his plans as laid out in his budgets. He can then change his budgets to better meet the business's stated objectives if necessary, and after the budget period he can compare projected and actual statements in order to determine variances and the reasons for these variances.

In this lesson the students are shown how to prepare a projected Profit and Loss Statement. They analyze actual versus projected figures in order to determine reasons for any variances. Students may encounter another type of Balance Sheet which is not mentioned in the lesson. It is the pro-forma Balance Sheet. This is a Balance Sheet which shows a financial situation which does not exist but which is expected to exist if certain circumstances are met. A pro-forma is the Balance Sheet which a businessman prepares prior to opening a business to show what is likely to exist. The instructor should introduce the students to this terminology.

FAB42

OBJECTIVE

The students will be able to prepare and analyze a projected Profit and Loss Statement.

RESOURCES REQUIRED

1. Case FAB42, "John Small". Parts 1 and 2.

METHODOLOGY

1. Hand out the Readings and read the Purpose and Introduction.

PURPOSE

The purpose of this lesson is to show you how to prepare projected financial statements.

INTRODUCTION

If you keep within the limits set by your budget, what is the financial condition of your business likely to be at the end of the budget period? What activities during the budget period caused the expected financial conditions?

These are questions that you, as manager, should be able to answer. In fact, you will have to answer them if you wish to apply for loans or grants.

OBJECTIVE: THE STUDENTS WILL BE ABLE TO PREPARE AND ANALYZE A PROJECTED PROFIT AND LOSS STATEMENT.

Stimulus

2. Ask: "How are budgeted figures presented so that they will be of use to the business?

Clarify Problem

3. Discuss this question, pointing out that it is possible to prepare financial statements based upon projected (budgeted) data.

Provide Information

4. Read and discuss Sections 1 and 2 of the Readings.

CONTENT

1. Projected Financial Statements

What two statements in business are commonly used to show the financial condition of a business at some period in time, and to show what activities occurred to cause that condition?

If you said the Balance Sheet and the Profit and Loss Statement you are correct. To date you have prepared these two statements using the records of what actually happened in the business during a certain period; but it is possible to prepare these statements to see the likely results of your budgets. If these statements are prepared using information about what you EXPECT to occur in the future, they are called projected financial statements. They are a budget or a plan of what you expect will happen in the business.

2. Information for Projected Financial Statements

The information for the projected financial statements comes from the budget schedule prepared for the upcoming accounting period. In order for you to see the results of your budget on the over-all financial condition of the business, the information in your budget must be presented in the Balance Sheet and the Profit and Loss Statement.

Both these statements are prepared in the same manner as any Balance Sheet or Profit and Loss Statement except instead of using information of what actually happened, you use information about what you expect to happen.

5. Ask the students who makes use of projected financial statements and how they are used. List the answers on the flip chart.

6. Read and discuss Section 3 of the Readings. Relate to the answers listed on the flip chart.

3. Who Uses Projected Financial Statements?

Projected statements are very useful to the businessman and to others who are interested in the financial activities of the business, for example, potential creditors.

The projected statements are useful to the businessman because they show him the possible results if his budgets are met. For example, he is able to see whether his required gross margin is going to be maintained if he implements the pricing policies he plans for the budget period. He is able to see if his expense ratio is going to change from the trends to date if his budgeted expenses are met. In other words the businessman is able to analyze the business as to what might occur and he can take corrective action before he has committed funds to the operation. The projected statements allow the businessman to foresee possible outcomes and redraw his plans in order to meet his objectives more efficiently.

The other person who uses projected financial statements extensively is the potential lender or creditor. When applying for loans, it is very common for the lending institution to request that you supply them with projected statements. The lending institution uses these statements to determine whether or not the funds they loan are going to be used in a manner that will ensure they are repaid. Remember that lending institutions are interested in five things:

a. How much money you need
b. How you are going to use it
c. Whether your business will make more money
d. Whether the lending institution will be repaid
e. And when will it be repaid.

All these things can be answered through the preparation of projected statements.

7. Read and discuss Section 4 of the Readings.

4. Summary

The statement of financial condition (the Balance Sheet) and the income and expense statement (Profit and Loss Statement) are considered basic to an understanding of the financial operations of the business, because they reveal the results of past activity. In a sense, the Balance Sheet is a summarization which answers the questions: Where are we? What are we worth? The Profit and Loss Statement reveals how the present state was reached. It shows whether profits were earned or losses incurred.

It is customary in budget procedure to consolidate the individual budgets in the form of budgeted statements of financial condition and net income (the projected Balance Sheet and the projected Profit and Loss Statement). These statements represent a preview of where operations will wind up with respect to assets, liabilities, equity, and profits if the budgeted plan is followed. At the conclusion of the budgeting period the actual financial results may be analyzed.

Indicator

8. Hand out part 1 of the Case FAB42. Have the students work through the case as it is read. Remember the estimates may differ from person to person.

9. Hand out Case FAB42, part 2. Have the students do the case and explain variances.

10. Instructor should draw the students' attention to the fact that the Case FAB42 shows a gross profit of 52.3% which is abnormally high and would not often be found in business.

FAB42

Blue Sky Store
Comparative Profit and Loss Statement
Year Ended December 31, 1970

	1968 $	1969 $	1970 $	Projected 1971 $
Sales	65,000	75,000	85,000	100,000
Cost of Sales				
Opening Inventory	2,500	5,500	6,500	8,500
Purchases	35,000	36,500	41,500	46,100
	37,500	42,000	48,000	54,600
Closing Inventory	5,500	6,500	8,500	6,850
	32,000	35,500	39,500	47,750
Gross Profit	33,000	39,500	45,500	52,250
Expenses				
Salaries & Wages	10,000	13,700	17,500	20,000
Occupancy	5,000	3,900	3,800	4,000
Selling	4,900	4,900	5,000	5,000
Delivery	3,400	4,200	4,200	4,600
Overhead	8,700	8,800	9,500	10,400
	32,000	35,500	40,000	44,000
Net Operating Profit	1,000	4,000	5,500	8,250

Blue Sky Store
Cash Budget
For Year 1971

	Jan	Feb	Mar	1st Quarter	2nd Quarter	1st Half Year	2nd Half Year	Full Year
Cash Balance at Beginning	1,000			1,000		1,000	1,500	1,000
Estimated Receipts								
Collection Accounts Receivable	8,000	8,500	9,000	25,500	32,000	57,500	46,500	104,000
Increase in Bank Loan	5,000			5,000		5,000		5,000
Total	14,000	8,500	9,000	31,500	32,000	63,500	48,000	110,000
Estimated Disbursements								
Mortgages, loans & interest	6,860			6,860		6,860		6,860
Operating Expenses:								
Salaries	1,600	1,600	1,600	4,800	6,200	11,000	9,000	20,000
Occupancy	400	400	400	1,200	800	2,000	2,000	4,000
Selling	400	400	400	1,200	1,550	2,750	2,250	5,000
Delivery	320	320	320	960	1,240	2,200	1,800	4,000
Overhead:								
Depreciation	No Cash Expenditure							
Bad Debts	No Cash Expenditure							
Other	592	592	592	1,776	2,294	4,070	3,330	7,400
Withdrawals			450	450	450	900	900	1,800

Cash Budget continued

		Jan	Feb	Mar	1st Quarter	2nd Quarter	1st Half Year	2nd Half Year	Full Year
Repayment of Short Term Loan		1,000	1,000	500	2,500	2,500	5,000	500	5,500
Sub Total		11,172	4,312	4,262	19,746	15,034	34,780	19,780	54,560
Accounts Payable Dec 31/70		2,828	112		2,940	---	2,940	---	2,940
Purchases: Jan.	3,500	---	3,500	---	3,500	---	3,500	---	3,500
Feb.	3,500	---	576	2,924	3,500	---	3,500	---	3,500
Mar.	3,500	---	---	1,814	1,814	1,686	3,500	---	3,500
2nd Quarter	13,100	---	---	---	---	12,880	12,880	12,880	13,100
2nd Half	22,500	---	---	---	---	---	---	---	21,000
TOTAL		14,000	8,500	9,000	31,500	29,600	60,100	41,000	102,100
Cash Balance at Close of Period		---	---	---	---	2,400	2,400	7,000	7,900

FAB42

Blue Sky Store
Profit and Loss Statement
Six Months Ended June 30, 1971

	Budget ($)	Actual Budget ($)	Over (Under) Budget ($)
Sales	54,500	55,000	(500)
Cost of Goods Sold			
Opening Inventory	8,500	8,500	---
Purchases	26,000	23,600	2,400
	34,400	32,100	2,400
Closing Inventory	9,000	7,500	1,500
	25,500	24,600	900
Gross Profit	29,000	30,400	(1,400)
Expenses			
Salaries	11,000	11,000	---
Occupancy	2,500	2,000	500
Selling	2,800	2,750	50
Delivery	2,100	2,500	(400)
Overhead:			
Depreciation	1,000	1,000	---
Bad Debts	---	1,000	(1,000)
Other	4,500	4,070	430
	23,900	24,320	(420)
Net Operating Profit	5,100	6,080	980

FAB42

Blue Sky Store
Statement of Receipts and Disbursements
For Six Months Ended June 30, 1971

	Actual ($)	Cash Budget ($)	Actual Favourable (Unfavourable) To Budget ($)
Cash Balance at Beginning	1,000	1,000	---
Receipts			
Collection in Sales	54,500	55,000	(500)
Accounts Receivable Reduction	2,500	2,500	---
Increase in Bank Loan	5,000	5,000	---
	63,000	63,500	(500)
Disbursements			
Mortgages, Loans & Interest	6,860	6,860	---
Operating Expense:			
Salaries	11,000	11,000	
Occupancy	2,500	2,000	(500)
Selling	2,800	2,750	(50)
Delivery			
Depreciation Truck	No Cash Expenditures		
Other	2,100	2,200	100
Overhead			
Depreciation	No Cash Expenditures		
Bad Debts	No Cash Expenditures		
Other	4,500	4,070	(430)
Repayment of Short Term Loan	5,000	5,000	---
Withdrawals Owner	600	900	300
Sub Total	35,360	34,780	(580)

Statement of Receipts and Disbursements continued

Accounts Payable				
Balance Dec 31/70	2,940	2,940	2,940	---
Purchases:				
1st Quarter	10,500	10,500	10,500	---
2nd Quarter	13,100	12,500	12,880	(380)
	26,540	25,940	26,320	380
Total		60,300	60,100	(200)
Cash at Close of Period		1,700	2,400	(700)

FAB42

1. Variance of $500.00 in net sales. A variance of less than 1%. It may be caused by specials not selling as well as expected. Perhaps there is not enough mark-up on the items sold, or the customers may be buying the specials at a low mark-up and not buying regular items at regular mark-up.

   Solution: Could be more advertising, more mark-up on the specials or the regulars, fewer specials.

2. Variance of $900.00 in cost of goods sold. Purchases were $2,400.00 more than expected and the closing inventory was $1,500.00 more than expected. This points out that the controls over inventory have to be more effective. The increase in purchases may be due to price increases, or a large purchase to take advantage of price.

   Solution: Could be better controls over purchases or a reduction of inventory. Perhaps the attempt to provide specials was not a good one in that gross profit was not enough and it had a determined effect on purchases.

3. Variance of $500.00 on occupancy. This is likely due to maintenance and repairs.

   Solution: Management to decide on further maintenance for the year; that is, not doing any more. If necessary, and if other controls are of no avail, the budget could be adjusted to show this unexpected cost.

4. Variance of $50.00 in selling. This is only a 2% variance. It could be due to increased advertising, increase in travel/entertainment.

   Solution: Watch closely and reduce these expenses during the last half of the year.

5. Variance of ($400.00) in delivery. An under variance can be as serious a problem as an over variance. Perhaps customers are not happy with deliveries -- causing sales to drop. The information in the Cash Budget showing $2,100.00 for cash expenditures in delivery would indicate that the depreciation on the truck has not been recorded. The saving is therefore only $100.00.

   Solution: Find the real cause.

6. Variance of ($1,000.00) in bad debts. Not really a saving in that the accounts will likely be written off in the last half of the year.

7. Variance of $430.00 in other overhead. Could be caused by a lack of control over any of the included expenses. Again, it may be an uncontrollable expense requiring budget adjustment.

The comments made about the variances in the Profit and Loss Statement will carry into the Cash Budget. In addition, the owner has withdrawn $300.00 less than he anticipated.

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB42 PROJECTED FINANCIAL STATEMENTS

CASE FAB42 - 1

JOHN SMALL

John Small had been operating Blue Sky Store for the past five years. Because John was interested in his business and he knew enough to make himself familiar with bookkeeping, his business was reasonably successful.

John's knowledge about records was gained through experience and by using an accountant to help him with his books. Over the years, he began to use records to control:

cash
accounts receivable
accounts payable
payroll
inventory.

Early in 1971, Mike Jack, John's accountant, approached him. "John, I've brought our completed Profit and Loss Statement and Balance Sheet. We've been making these up for a few years now and your records are in good shape. I think it's time you began to plan ahead a little more and prepare a budget."

"A budget! What for?" was John's startled reply.

"Well," Mike replied, "Let's look at it. A budget is a plan. Your objective is to make a profit, isn't it?"

"Yes."

"Well, the best way to reach your objective is to plan the route you'll take. You'll plan all aspects of the business, like the location, the staff you'll need, etc. The financial plan is called a budget."

"I've always believed in planning," said John, "but how will a budget help me make a profit?"

"Besides the planning aspect, the budget can help you control the operations. For example, the accounts receivable could be brought up to date. In your budget you could plan how this would be done. Then during the year you can keep an eye on them, and by comparing the actual with the budget you'll see if you are going to reach your objective."

"Would this also help cut down inventories?" John began to show some enthusiasm."

"We could put that into the plan and it should help you."

"Well, it seems to make sense. How do I go about it?"

"I'll be back next week to talk about it. I have to see Harry Smith right now." was Mike's reply.

When Mike returned he brought the Profit and Loss Statements for 1968, 1969 and 1970, and the Balance Sheet as at December 31, 1970.

John and Mike began work on the budget. (The enclosed statement and Work Sheet is the information Mike provided. Use the blank column to work along with John and Mike).

The following are the questions and answers in John and Mike's conversation.

"What about your sales? Do you intend expanding next year?"

"Well, in 1970 the gross was $85,000.00. I can see an increase here. I intend to try to have more cash sales but at a lower markup on some items. I'd say about $100,000.00 but the per cent of gross profit would be slightly less." was John's reply.

"Now, on cost of sales, we know your opening inventory is $8,500.00. You said something about wanting to reduce it?"

"Yes, I think I could and should reduce my inventory to about $6,850.00."

"We know your opening and closing inventory. Now we can calculate purchases from that and what you said about gross profit. If we say about 52.3% for gross profit we'll have:

Amount taken from Inventory	$ 1,650.00
Purchases	46,100.00
Total (47.7% of Sales of $100,000.00)	$47,750.00

Mike said, "The next section we have to deal with is expenses. What about the salaries and wages?"

"If I intend increasing sales, I'll need some more help. I think an increase of $2,500.00 would be enough if I had to hire one more person. In maintenance and repair I can expect a small increase if there's going to be more business in the store, maybe another $200.00."

"What about selling expenses? Will they increase?" Mike asked.

"I think I'll maintain what I have. The increase in sales will depend on specials rather than advertising."

"Delivery includes truck maintenance, express and wrapping. Will they increase?"

"I'll really save here -- I made a special deal on delivery -- a year's contract at a saving of $200.00 over last year."

"Good, but we'll have to put something down for the depreciation of the truck you bought last year."

"Oh yeah. That'll be 30% of $2,000.00. That's $600.00 isn't it?" asked John.

"Yes, $600.00 is right. Now let's look at the other expenses. What's going to happen here?"

"The office supplies and postage may increase some -- let's say $200.00. The new rates for telephone came to about an additional $150.00 for the year. I increased my insurance, and the premium went up by $200.00. There'll be another $50.00 for unemployment insurance and Canada Pension, etc."

"What else is in that section?" asked Mike.

"Well, there's taxes, and the council just set a new rate."

"Yes, I figured another $200.00 for that. Then there's association fees, subscriptions, donations, interest on loans, depreciation, bad debts and miscellaneous."

"I don't think any of these will change, they always seem to stay pretty much the same, except interest."

"You made up a schedule at the end of the year. Here it is:

Mortgage	$5,500.00	6%	$ 330.00
Truck Loan	$1,500.00	6%	90.00
Bank Loan			580.00
			1,000.00

"It'll be about the same as last year. Miscellaneous might go up to $100.00. We'd better allow for it."

"That's that section. We end up with a fairly nice profit."

"Good. That's the way I like it. Is that all? Are we finished already?" asked John.

"That just covers the profit and loss. What else should we be looking at?"

"You've pounded it into my head that there's no relation between profit and loss and cash on hand, so I suppose it's something to do with cash."

"Right you are! We need a Cash Budget. This is going to be important because of the heavy cash payouts early in the year. First of all, we have to know how much cash you're going to collect."

"I'm going to make a real effort to reduce over 30 day old accounts. Right now there are 115% of those over 30 days. I have plans of dropping that in steps, to 108% in February, 92% in March, 77% for the end of June and about 54% at the end of the year. Here I've made a schedule of them."

	January	February	March	2nd Quarter	2nd Half
Under 30 days old	$6,500.00	$6,500.00	$6,500.00	$6,500.00	$6,500.00
Over 30 days old	7,500.00	7,000.00	6,000.00	5,000.00	3,500.00
	($115%)	($108%)	(92%)	(77%)	

"Good, this along with your sales will give us your cash collections. Your sales are higher different parts of the year, aren't they?"

"Yes, about 55% are in the first half year and about 24% in the first three months. That's $24,000.00 for the first quarter or $8,000.00 per month, $31,000.00 in the second quarter and $45,000.00 in the last half. That means cash collections of:

	January	February	March	2nd Quarter	2nd Half
Accounts Receivable		$ 500.00	$1,000.00	$ 1,000.00	$ 1,500.00
Sales	$8,000.00	$8,000.00	$8,000.00	$31,000.00	$45,000.00
	$8,000.00	$8,500.00	$9,000.00	$32,000.00	$46,500.00

"Any money available from the bank?"

"Yes. I'm still well within my credit. It's based on 60% of acacounts receivable and 50% of inventory. I borrowed $5,000.00 in

January. The total now is $6,500.00 including the amount outstanding at the end of the year. I have to pay it back in payments of $500.00 when I can.

"Let's see how this works out. You may not have to borrow any more."

The following is the information John gave Mike on cash disbursements:

Mortgage and Loans with Interest	- due January 1
Salaries and Wages	- varies - 20% of Sales
Occupancy - utilities, maintenance and repairs	- $150.00 per month January $250.00 February $250.00 March $250.00 2nd Quarter $350.00 2nd Half $1,100.00
Selling	- varies - 5% of Sales
Delivery	- Depreciation ($600.00) for year No cash outlay Balance varies 4% of Sales
Other disbursements	- Depreciation ($2,000.00) for year No cash outlay - Bad Debts ($1,000.00) for year No cash outlay Balance varies 7.4% of Sales
Withdrawals J. Small	- $150.00/month when the business has cash available

Based on this information and the projected Profit and Loss Statement, prepare a Cash Budget for 1972.

FAB42

Blue Sky Store
Comparative Profit and Loss Statement
Year Ended December 31, 1970

	1968 $	1969 $	1970 $	Projected 1971 $
Sales	65,000.00	75,000.00	85,000.00	
Cost of Sales				
Opening Inventory	2,500.00	5,500.00	6,500.00	
Purchases	35,000.00	36,500.00	41,500.00	
	37,500.00	42,000.00	48,000.00	
Closing Inventory	5,500.00	6,500.00	8,500.00	
	32,000.00	35,500.00	39,500.00	
Gross Profit	33,000.00	39,500.00	45,500.00	
Expenses				
Salaries & Wages	10,000.00	13,700.00	17,500.00	
Occupancy	5,000.00	3,900.00	3,800.00	
Selling	4,900.00	4,900.00	5,000.00	
Delivery	3,400.00	4,200.00	4,200.00	
Overhead	8,700.00	8,800.00	9,500.00	
	32,000.00	35,500.00	40,000.00	
Net Operating Profit	1,000.00	4,000.00	5,500.00	

FAB42

Blue Sky Store
Balance Sheet
as at December 31, 1970

	($)	($)
Assets		
Current Assets		
Cash	1,000.00	
Accounts Receivable	14,000.00	
Inventory	8,500.00	23,500.00
Fixed Assets		
Building	12,000.00	
Equipment (Fixtures & Truck)	5,000.00	
	17,000.00	
Less: Accumulated Depreciation	6,000.00	11,000.00
Total Assets		34,500.00
Liabilities & Owner's Worth		
Current Liabilities		
Accounts Payable	2,240.00	
Bank Loan	1,500.00	
Payments due in one year	6,000.00	
Interest Payable	860.00	11,300.00
Long-Term Liabilities		
Mortgages and Loans	5,500.00	
Loan for new truck	1,500.00	
Loan, Mrs. M. Kennedy	2,500.00	9,500.00
Total Liabilities		20,800.00
Owner's Worth		
Capital at beginning of year	9,400.00	
Add: Profit for year	5,500.00	
	14,900.00	
Less: Owner's withdrawals	1,200.00	13,700.00
Total Liabilities & Owner's Worth		34,500.00

Cash Budget
For the year 1971
(continued)

	January	February	March	First Quarter	Second Quarter	First Half Year	Second Half Year	Full Year
Withdrawals John Small								
Repayment of short-term bank loans								
Sub Total								
Accounts Payable Dec. 31/70								
Purchases - January	$ 3,500.00							
February	3,500.00							
March	3,500.00							
Sec. Quarter	13,100.00							
Sec. Half	22,500.00							
Total								
Cash Balance at close of period								

Cash Budget
For the Year 1971

	January	February	March	First Quarter	Second Quarter	First Half Year	Second Half Year	Full Year
Cash balance at beginning								
Estimated receipts								
Collections on accounts receivable								
Increase in bank loan								
Total								
Estimated disbursements								
Mortgages, loans & interest								
Operating Expenses								
Salaries & Wages								
Occupancy								
Selling								
Delivery:								
Depreciation on truck								
Other								
Overhead:								
Depreciation								
Bad Debts Write Off								
Other								

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB42 PROJECTED FINANCIAL STATEMENTS

CASE FAB42 - 2

JOHN SMALL - PART 2

In July of 1971, John prepared a statement for the first six months of operation. Attached is a copy of what actually happened during that period.

Compare the budgeted figures with the actual figures and determine the amount of variance.

Discuss the variances, suggesting how these could occur, what can be done to correct the situation, and what effect they might have on the plan for the rest of the year.

FAB42

Blue Sky Store
Profit and Loss Statement
Six Months Ended June 30, 1971

	Actual	Budget	Over(Under) Budget
Sales	$54,500.00		
Cost of Sales			
Opening Inventory	8,500.00		
Purchases	26,000.00		
	$34,500.00		
Closing Inventory	9,000.00		
	$25,500.00		
Gross Profit	29,000.00		
Expenses			
Salaries and Wages	11,000.00		
Occupancy	2,500.00		
Selling	2,800.00		
Delivery	2,100.00		
Overhead			
Depreciation	1,000.00		
Bad Debts (Written Off)			
Other overhead	4,500.00		
	$23,900.00		
Net Operating Profit	$ 5,100.00		

FAB42

Blue Sky Store
Statement of Receipts and Disbursements
For Six Months Ended June 30, 1971

		Actual $	Cash Budget $	Actual Favourable (Unfavourable) to Budget ($)
Cash Balance at Beginning of Period		1,000.00		
Receipts:				
Collection of Sales		54,500.00		
Accounts Receivable Reduction				
Increase in Bank Loan		5,000.00		
		63,000.00		
Disbursements:				
Mortgages, Loans & Interest		6,860.00		
Operating Expenses				
Salaries & Wages		11,000.00		
Occupancy		2,500.00		
Selling		2,800.00		
Delivery				
Depreciation on Truck		No Cash		
Other		2,100.00		
Overhead				
Depreciation		No Cash		
Bad Debts Written Off		No Cash		
Other		4,500.00		
Withdrawals				
Owner		600.00		
Income Tax		900.00		
Repayment of Short-Term Loans		5,000.00		
Accounts Payable:				
Balance December 31, 1970	2,940.00	2,940.00		
Purchases 1st Quarter	10,500.00	10,500.00		
2nd Quarter	13,100.00	12,500.00		
	26,540.00	25,940.00		
TOTAL		62,200.00		
Cash at Close of Period		800.00		

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB43 FINANCING THE BUSINESS

INSTRUCTOR'S GUIDE

OVERVIEW

In lesson FAB12, "Sources of Funds for Starting a Business", various sources of financing were discussed, and various institutions that a potential businessman could approach in order to obtain starting funds were outlined. The students were shown the requirements and regulations under which various institutions operate. This lesson is a brief review of the sources outlined in FAB12. The students look at ways of using sources of finance to start a business, the information which is required on a typical credit application.

OBJECTIVE

The students will discuss the details of various sources of financing that are available to help start a business, and will state the information which must be included on an application for a loan or grant.

RESOURCES REQUIRED

1. See resources suggested for Lesson FAB12.
2. Contact banks and credit unions for information regarding financing of business: short term and long term.

3. Resource persons if available, such as a bank or credit union manager, or a government representative.

4. Application forms from various lending agencies, such as the banks or the departments of Indian Affairs and Northern Development, and of Regional Economic Expansion.

METHODOLOGY

1. Hand out the Readings and read the Purpose and Introduction.

PURPOSE

In this lesson you will discuss the various sources of financing you might use if you need funds to operate your business, and the various kinds of security that might be requested for the financing.

After discussing the sources of financing and the kinds of security required, you will be shown how to prepare a Credit Application.

INTRODUCTION

If you have saved enough money, or if you are able to rent or lease buildings and equipment so that your cash outlay is small, you might be able to finance a small business yourself. There is more personal freedom when you can finance your own business; however, there are situations when it is necessary to borrow money. There are a number of places that lend people money, and it is important that you know something about each of them so that you can choose the one that best meets your particular needs.

Many businesses do not succeed in obtaining all their required funds in the form of equity capital. Since many people are unwilling to share control and future profits with partners or shareholders, they must borrow additional funds.

It is useful to think of the Canadian Business Credit Market as being made up of two divisions; one concerned with medium and long-term credit of more than one year, and the other with short-term credit of one year or less. These two divisions differ in credit appraisal methods and standards. When lending on a medium or long-term basis, credit institutions tend to place greater emphasis on the earning power of your business, and your ability to repay the debt. In lending on a short-term basis, greater reliance is placed on the Balance Sheet of your business in order to determine whether liquidation of current assets would produce sufficient funds to repay the debt.

When you apply for a business loan or a business grant, you will be required to fill out a credit application. The more you can tell the lending agency about your operations or expected operations, the better they can judge whether or not to give you the loan or grant.

Remember, many times you will not be able to appear in person before the person or persons who will make the final decision on whether you get the loan or not. Therefore, it is very important that your credit application contains the answers to questions they might ask.

OBJECTIVE: THE STUDENTS WILL DISCUSS THE DETAILS OF VARIOUS SOURCES OF FINANCING THAT ARE AVAILABLE TO HELP START A BUSINESS, AND WILL STATE THE INFORMATION WHICH MUST BE INCLUDED ON AN APPLICATION FOR A LOAN OR GRANT.

Stimulus

2. Ask: "How many of you know how much money you are going to need to start a business, and where you are going to borrow that money?"

Clarify Problem

3. Ask the students to think of all the different sources of money that are available to start a business. Ask one of the students to list these sources on the flip chart.

Provide Information

4. Read Sections 1 to 9 of the Readings. After covering each of the credit sources listed, allow some time for questions and discussion. Refer to FAB12 Readings for more detail on each source.

CONTENT

1. Short-Term Loan Capital

The current or 'working' assets of your business should be considered in terms of:

a. normal or usual requirements
b. peak or seasonal requirements.

The normal asset requirements of a business should be financed by capital from relatively permanent sources such as your own investment or long-term borrowing. As a minimum, the amount available from these sources should be sufficient to maintain your operations until you can establish credit arrangements or generate enough sales receipts. However, working asset requirements vary a great deal during the year, depending on the seasonal pattern of the business, price changes, etc. Since the need for large amounts of cash is temporary, it should be financed on a short-term basis. It is called short-term because the time between getting the loan and repayment of the loan is generally less than a year.

The short-term credit needs of your business may be satisfied by one of the following:

a. a commercial bank or credit union
b. the mercantile or 'trade' creditor
c. a factoring company
d. non-banking agencies such as sales finance, commercial finance and small loan companies.

2. Commercial Banks and Credit Unions

The amount of credit available from a bank is related to the size of the 'cushion of risk capital' invested in the business by you, the owner. If a bank is to risk its funds by providing a loan, it insists that you must risk your funds in adequate proportion. As a general rule, in order to borrow working capital from a bank you must provide a proportionate amount of risk capital. The bank's decision to extend credit is closely related to this rule.

A bank is interested in:

a. how much money you need
b. how you are going to use it
c. whether your business will make more money

d. whether the bank will be repaid
e. when it will be repaid.

In order to answer these questions and increase the chances of getting the loan, you can use the budget you prepared for your business. If you can approach the institution you wish to borrow money from with a well-prepared budget showing how much you need, when you need the money and how you plan to repay it, you improve your chances of getting the money you need.

It is a function of chartered banks to make loans to borrowers who can use the money profitably in legitimate enterprises, with reasonable prospects of repayment under normal conditions. Bank loans are granted for working capital purposes, and provision is made for repayment of the loan from the ordinary operations of your business. Usually you provide security for bank loans unless your financial position is really strong and your business is well enough established to warrant unsecured credit.

Under the terms of the Bank Act, banks may provide loans to manufacturers, wholesalers, shippers, dealers, stockraisers, farmers, fishermen, etc. Below are some forms of collateral which may be accepted as security.

a. items which are manufactured, purchased, raised or grown
b. equipment used in manufacturing or processing
c. drilling rights
d. assignments of accounts receivable.

3. Trade Credit

Practically all small businesses make regular use of the mercantile credit extended by suppliers; that is the value of the goods received is 'borrowed' by the business until the invoice is paid, except in cases where cash is paid 'with order' or 'on delivery'. Such amounts are borrowed solely on the security of the normal terms of payment in the particular trade and on your business's reputation. Usually your creditor neither requires nor expects any security for the amount you owe him. However, most of your suppliers will check your credit rating before your order is accepted. If you meet your credit obligations regularly, you should have no trouble getting financing through mercantile credit.

Credit extended by suppliers is very important to the beginning businessman. In fact, trade credit is the small firm's most widely used source of short-term funds. The fact that trade credit is used to finance inventories indicates that it is usually short-term financing, that is, for 30, 60 or 90 days.

The most common type or form of trade credit is the open-book account. If the small businessman secures open-book credit, he simply places his order via the telephone or through the use of a purchase order, and once the order has been approved, the supplier ships the goods and enters the small businessman's debt on his books. When the goods and the invoice are received by the small businessman, he enters the amount shown on his Accounts Payable Ledger.

The amount of trade credit that will be available to the small businessman will depend on his type of business and the supplier's confidence in the firm. It is a fact, however, that suppliers tend to place greater confidence in a new business, and extend credit more freely than commercial banks. This is probably due to the suppliers' interest in developing new customers. Bankers also are usually much more complete in their analysis of the financial conditions of any new customers. Although a supplier usually checks the general credit rating of the purchaser, he extends credit without requiring detailed financial statements. The supplier also tends to be somewhat less exacting than a banker or other lender in requiring rigid adherence to credit terms.

In considering the use of trade credit, you should pay strict attention to the costs involved. The most critical cost involved is failure to take an offered cash discount.

If a cash discount is missed, trade credit is probably the most expensive form of credit that you will use. The following example will illustrate the cost of trade credit. Assume that credit terms are 2/10, net 30. In such a case if you fail to pay by the 10th day, you must pay the full amount by the 30th day. Thus missing a discount means that you are going to use the supplier's funds for an additional 20 days and also lose a discount of 2 per cent of the face value of the invoice. In other words, you are paying 2 per cent to use the supplier's funds for an extra 20 days. In terms of an annual cost, there are 18, 20-day periods in a year, hence the annual interest cost of trade credit in this case is 18 times 2 per cent, or approximately 36 per cent. (The cost of trade credit is converted to an annual rate basis.) It is clear from this example that you should take advantage of any trade discounts you are offered. Pay your accounts payable within the discount period.

4. Factoring Companies

Factoring companies are businesses which specialize in buying the accounts receivable of their clients. The client relies on the factor's advice as to what trade credit he should extend to his customer and transfers the account receivable to the factor. The factor, therefore, assumes the full credit risk and absorbs all credit losses and collection expenses in connection with the receivables he has purchased.

This type of financing is not usually used by a small businessman, but if you are aware of its presence you might be able at some time to make use of it as a form of short-term financing.

Factoring companies discount the receivables and also charge a commission for collecting the receivables. The commission is the factor's pay for assuming full credit risks on the receivables purchased, as well as for undertaking the collection work and absorbing all the expenses connected with the collection.

5. Sales Finance Companies

Finance companies are best known for their role in the retail or consumer credit field, but many of them offer services to the businessman in the area of purchasing and financing for machinery and equipment. The sales finance companies only require that the equipment they finance be revenue producing, and that an assessment of the credit risk indicates your ability to pay for the equipment out of the revenue generated by its use.

6. Commercial Finance Companies

Commercial financing is similar to sales financing. Commercial financing companies will normally lend money secured by assignment of accounts or notes receivable in much the same way as banks and small loan companies do. They will also make loans secured by warehouse receipts. Like factors, commercial financing companies usually limit their loans to manufacturer's or wholesaler's receivables. However, they differ from factors in that they do not buy receivables, and they do not assume any credit risk. Usually they do not provide collection service or management advice.

7. The Small Businesses Loans Act

The Small Businesses Loans Act was brought into force by proclamation and became effective on January 19, 1961. This legislation permits loans to be made by the chartered banks under a federal government guarantee to assist small business enterprises engaged in manufacturing, wholesale trade, retail trade and most service businesses in the improvement and modernization of equipment and premises.

A small business enterprise, as defined by the Act, is one whose estimated gross annual revenue for the fiscal year in which the application for a loan was made did not exceed $250,000.00. The maximum loan is $25,000.00 or an amount equal to the principal outstanding for any other loans of that business. The bank may, after taking into account the amount borrowed and other important facts, allow up to ten years for the repayment of the loan.

By talking with your banker, you will be able to find out if you can obtain funds under this Act.

8. Indian Loan Fund

The Indian Loan Fund will make money available to treaty Indians for the purpose of establishing businesses in manufacturing, farming, retailing and tourism. Large loans are available if the business is well planned and has potential. For further information contact your local Indian Affairs office.

Advantages Over Other Leading Institutions

a. The Indian Loan Fund will provide money to start your business when other credit sources cannot, or are not available to you.

b. The interest rates charged are lower than common sources of credit.

c. The repayment period can be up to a maximum of 20 years.

9. The Industrial Development Bank

Industrial Development Bank, a subsidiary of the Bank of Canada, was established by the federal government in 1944. Its purpose is to provide medium and long-term loans to industrial enterprises who cannot obtain loans on reasonable terms and conditions elsewhere. Regional offices are located in each province.

Most types of businesses (manufacturing, wholesale or retail trade, tourism, construction, professional services, and transportation) are eligible for Industrial Development Bank loans. The business may be a new one or an existing one;

however, particular attention is paid to small business. The loans are normally for a period of 7 to 10 years but can be repaid at any time.

The usual purposes of Industrial Development Bank loans are to finance the purchase of fixed assets such as land, buildings, machinery, and equipment, and to finance the establishment of new businesses.

Advantage
Not as much security is required to obtain a loan from the Industrial Development Bank compared to most lending institutions.

Disadvantage
Industrial Development Bank seldom extends their terms beyond 10 years.

5. Read and discuss Section 10 of the Readings.

10. Using Sources of Finance to Start Your Business

a. Planning for Loans
Careful planning is essential. This starts with an understanding of one's current situation. That is, you should evaluate your own resources - your property, savings, ambition, management ability and so on. The long range credit needs of both your business and the family must always be kept in mind.

b. Budgeting
Budgeting is a very useful tool in planning for a loan to start your business. A budget is simply a projection of the expected receipts, expenses and net income when you start a business. Such budgets require total costs and income estimates.

c. Determining the Size of Loan That Can be Carried
It is very hard to determine the size of loan that can be safely carried - mainly because it depends on many factors which vary according to the individual's circumstances.

Repayment capacity is the most important factor to keep in mind. You can estimate your repayment capacity by looking at the projected estimates (budget) of your yearly receipts, expenses, net income and living expenses. For example:

Estimated receipts		$26,000.00
Less expenses		19,400.00
Net income		$ 6,600.00
Less living expenses	$3,600.00	
Replacement allowance	1,500.00	5,100.00
Debt payment capacity (yearly payment)		$ 1,500.00

Given an interest rate of 7% and a desired repayment period of 10 years, how large a loan can you borrow?

To determine the factor to use, you refer to the table below.

(1) Find the interest rate on the left hand side of the table (in example, 7%).

(2) Find the desired repayment period expressed in years along the top of the table (in example, 10 years).

(3) Look down the year column until you are at the number opposite the interest rate you are working with. This will be the factor to use (in example, 7.02).

Interest	Repayment Period		
Rate	5	10	15
4%	$4.45	$8.11	$11.12
5%	4.33	7.72	10.38
6%	4.21	7.36	9.71
7%	4.10	7.02	9
8%	4.00	6.71	8

Debit limit = $1,500.00 x 7.02 = $10,502.00

You can borrow a loan for $10,502.00.

Use Table 1 and the foregoing sample budget to calculate the following:

Situation 1

Given an interest rate of 5% and a desired repayment period of 25 years, how large a loan can you borrow?

Situation 2

Given an interest rate of 6% and a desired repayment period of 30 years, how large a loan can you borrow?

Interest Rate	5	10	15	20	25	30	35	40
	Repayment Period (years)							
4%	$4.45	$8.11	$11.12	$13.59	$15.62	$17.29	$18.66	$19.80
5%	4.33	7.72	10.38	12.46	14.09	15.37	16.37	17.16
6%	4.21	7.36	9.71	11.47	12.78	13.76	14.50	15.05
7%	4.10	7.02	9.11	10.59	11.65	12.41	12.95	13.33
8%	4.00	6.71	8.56	9.82	10.67	11.33	11.65	11.92

Table 1 Debt Limits per $1 annual Payment

This table can be used to determine how large an amortized (amortize means extinguish a debt, usually by a sinking fund) loan can be taken out. However, it is necessary to know the amount of the annual payment as well as the interest rate and the desired length of the repayment period. All that is needed is to find the right interest rate, the repayment period (years) and multiply the corresponding figure by the number of dollars of each yearly payment.

In general, the greater the amount of income that is available for repayment and the longer the time period allowed for paying back the loan, the larger is the size of the loan that can be carried safely. Other factors which must also be considered include:

(1) the profitability of the business
(2) your age and health
(3) the amount of capital already owned
(4) the general outlook for the future (sales forecasts)
(5) the amount of credit a lending agency is willing to loan.

d. Length of the Repayment Period (terms)

The kind of loan and repayment capacity should determine the length of the repayment period. If repayment capacity is very good, a loan can be paid back quickly and interest charges saved. However, it is not always advantageous to repay a loan as quickly as possible.

Long-term loans, such as land and buildings, normally are paid for over a fairly long period (15-20 years). Shorter-term loans require less time, and should be paid for before the purpose of the loan no longer exists. For example, machinery must be paid for before it wears out.

In general, the repayment period should be related to the expected lifetime of whatever the loan is borrowed for. It could also correspond to the time required to earn enough income to pay for the loan, providing this is consistent with your business's long-term credit needs.

6. Hand out pamphlets and other information on financing to students. Discuss this material with the students. Bring the resource people (if available) to discuss the details of various sources of financing.

   The instructor should point out that when the students are ready to go into business, they will be able to get up-to-date information and assistance in getting a loan from the sources of credit they investigate.

7. Ask the students: "How does one get and maintain a good credit rating?" Ask the students to think of answers to the above question and have one of the students list the suggested answers on the flip chart.

8. Read and discuss Section 11 of the Readings.

11. Establishing and Maintaining A Good Credit Policy

When 'shopping' for short-term financing, the businessman should explore all possible sources. The use of an Operating Budget will give you time to find the best source for financing, it will tell you how much you are going to need, and it will tell you how you are going to repay the financing. You help yourself and your creditors by being prepared.

a. Personal Reputation
   The most important asset you have is your personal reputation. If you have a reputation as a man of your word , suppliers and banks will be interested in doing business with you. If you have a reputation for not paying your debts, then your chances of establishing a good credit rating are low. Not even a stack of good looking financial statements will impress your suppliers or the bank managers.

b. Ability to Pay
   Not only must you have a good personal reputation, but you must also convince your creditor that you know what you are doing, and that you are running a good business. Suppliers and banks want to do business with you, but they also want to be assured that you will be able to

repay them. If you are in a poor financial position and need credit, it helps to know why you are in that position and how you can get out of it. Again the importance of planning and preparing budgets will help you. The budgets will show you why you are in that financial position, how much money you need, and how you are going to repay your creditor. By showing on paper an ability to repay a creditor, you increase your chances of getting credit.

9. Ask: "What information would be needed by a lending agency from anyone applying for a loan?" List answers on the flip chart.

10. Read Section 12 of the Readings. Relate Readings to the answers listed in point 9.

12. Applying for a Loan or Grant

Every organization that lends money has its own application forms. The forms usually ask the same kind of questions although the wording may be different. If you understand why the questions are asked, it will be easier for you to provide the correct and/or useful answer.

You may be applying for operating capital or long-term capital for purchasing fixed assets. The institution you approach to get the loan will depend on who you are, where you are and for what you want the loan. Earlier in the course you discussed where you could borrow money, for what purpose and the special funds available. Each of these institutions will have application forms they require you to complete. They might also require you to submit a written proposal containing projected financial statements showing how you will use the money and how you will be able to repay the loan.

In the case of a grant you will not have to repay the money, but you will still be required to complete an application form. You will also likely be asked to give the institution a written proposal showing how the grant will help your business and community.

The following are the type of questions you might be asked on an application form:

a. Occupation
b. Education

c. Marital Status - dependents - age
d. Source and amount of income
e. Employment record for the past five years
f. Life insurance policy plan, pension plan
g. Savings
h. Personal living expenses per month
i. List of debts - amounts - age - payments
j. Where banking is done
k. List of assets - encumbrances
l. References
m. Type of ownership
n. Any government grants
o. Co-maker - guarantor
p. Amount of loan required
q. For what will loan be used
r. When will money from the loan be used
s. Source of funds for repayment
t. Security available
u. Real estate particulars (description, location, name in which title appears, year purchased, encumbrances, purchase price, fire insurance, mortgage - due date, taxes)
v. Repayment plan - amount - when
w. The past performance of the business
x. Future expectations of the business
y. Location of the business.

When you borrow money you are using someone else's savings or earnings. The institution lending the money wants to make sure you can and will repay the money. Your personal record and the record of the business will have a lot to do with the final decision on your application. The way you are able to answer a loan manager's questions is as important in getting your loan approved as having good security. A budget and good records will be a great help to you when you apply for the loan or grant. If you are just starting a business and therefore do not have any past records, the operating budget and projected financial statements will be extremely important.

11. Read and discuss Section 13 of the Readings.

13. Assessment of Loan Application

In order for you to see what is involved in a loan application, an example of a summary of a loan application is presented below. A Statement of Projected Cash Flow and a Schedule of Loan Repayment are also included.

FAB43

Summary of Loan Application

Applicant

Joseph Walker

Purpose

He wants to purchase a new school bus and new car to transport children from Middle Narrows to School in Mabou.

Amount of Loan

New 48 passenger bus	$ 8,196.00
New sedan	4,006.00
	$12,202.00

Evaluation of Bus Operation

The projected statement of cash flow was prepared from the following information:

a. Revenue
Contract amount for the 1972 - 1973 year with a 6% increase projected for each of the years 1973 and 1974.

b. Gas
Bus - 6 miles per gallon or $.09 per mile.
Sedan - 12 miles per gallon or $.045 per mile.

c. Interest
7 1/4% on a declining balance for a loan in the amount of $12,202.00 repayable over a thirty-six month period with ten monthly instalments per year, coinciding with the school term.

d. Normal Maintenance
Estimated cost of $.21 per mile projected evenly over the three year period.

e. Wages
Two drivers at a cost of $100.00 per week.

The net cash available after loan repayments should be sufficient to maintain the applicant's household.

Evaluation of the Applicant

Marital Status	- married
Dependents	- 4
Experience	- Unemployed for several months and received welfare assistance. Lacks business experience.
Potential	- Professional guidance is available through Provincial and Federal agencies. The cash flow from the operation should provide sufficient income to maintain the applicant's household.

Conclusion

Based on the foregoing information and the Statement of Projected Cash Flow, it is recommended that the loan application be considered, subject to:

a. Satisfactory assessment of applicant's ability to manage his operation successfully, supplemented with professional advice as required;

b. Maintenance of adequate accounting records to provide monthly information to the lending agency;

c. Mortgage security on vehicles being acquired and any additional security considered necessary.

Joseph Walker
Schedule of Loan Repayment

Loan Principal	$12,202.00
Interest Rate	7 1/4%
Term	36 months commencing September 1, 1972

	1972	1973	1974	TOTAL
Principal Repayment	$3,777.00	$4,059.00	$4,366.00	$12,202.00
Interest	753.00	471.00	168.00	1,392.00

FAB43

Schedule of Repayment (10 monthly payments)

	Interest	Principal	Payment	Principal
1972	$ 87.46	$ 365.59	$ 453.05	$11,836.41
	84.82	368.23	453.05	11,468.18
	82.16	370.89	453.05	11,097.29
	79.48	373.57	453.05	10,723.72
	76.78	376.27	453.05	10,347.45
	74.06	378.99	453.05	9,968.46
	71.31	381.74	453.05	9,586.72
	68.55	384.50	453.05	9,202.22
	65.77	387.28	453.05	8,814.94
	62.97	390.08	453.05	8,424.86
	$ 753.36	$3,777.14	$4,530.00	
1973	$ 60.15	$ 392.90	$ 453.05	$ 8,031.96
	57.31	395.74	453.05	7,636.22
	54.45	398.60	453.05	7,237.62
	51.57	401.48	453.05	6,836.14
	48.66	404.39	453.05	6,431.75
	45.74	407.31	453.05	6,024.44
	42.79	410.36	453.05	5,614.18
	39.83	413.22	453.05	5,200.96
	36.84	416.21	453.05	4,784.75
	33.83	419.22	453.05	4,365.53
	$ 471.17	$4,059.33	$4,530.50	
1974	$ 30.80	$ 422.25	$ 453.05	$ 3,943.28
	27.74	425.31	453.05	3,517.97
	24.66	428.39	453.05	3,089.58
	21.57	431.48	453.05	2,658.10
	18.45	434.60	453.05	2,223.50
	15.30	437.75	453.05	1,785.75
	12.14	440.91	453.05	1,344.84
	8.95	444.10	453.05	900.00
	5.73	447.32	453.05	453.42
	2.50	453.42	453.05	
	$ 167.84	$4,365.53	$4,530.50	NIL
	1,392.37	12,202.00	13,594.37	

NOTE: The following statements refer to Joe Walker's Statement of Projected Cash Flow and the Schedule of Loan Repayments.

Joseph Walker
Statement of Projected Cash Flow

Bus Operation

	Yearly Mileage	1972	1973	1974
Revenue				
Middle Narrows School	420.00	$ 2,850.00	$ 3,020.00	$ 3,200.00
Middle Narrows High School	3,200.00	9,500.00	10.070.00	10,670.00
Mabou Technical	3,390.00	1,444.00	1,530.00	1,620.00
	7,010.00	$13,794.00	$14,620.00	$15,490.00
Expenses				
Gas		535.00	535.00	535.00
Interest		753.00	471.00	168.00
Licences & Insurance		511.00	662.00	662.00
Normal Maintenance		150.00	150.00	150.00
Repairs			50.00	100.00
Wages & Employee Benefits		3,850.00	3,850.00	3,850.00
		$ 5,799.00	$ 5,718.00	$ 5,465.00
Cash flow before repayment of loan		$ 7,995.00	$ 8,902.00	$10,025.00
Loan repayment		3,777.00	4,059.00	4,366.00
Cash flow available for Personal Use		$ 4,218.00	$ 4,843.00	$ 5,659.00

Indicator

12. Group discussion.

13. Read Section 14 of the Readings to summarize this lesson.

14. Summary

Remember, when you are applying for a loan and/or grant, you are asking to use someone's money. The lending agency will want to know the following information about you and your business.

a. How much money you need
b. How you are going to use it
c. Whether your business will make more money
d. Whether the lending agency will be repaid
e. When and how it will be repaid.

In your proposal and application, you MUST answer these and other questions about you and your business. Remember that often people making the decision on whether to give you the loan know only what you tell them on your application. The more complete information and plans you can tell these people, the better your application will be received.

Short-term financing is the use of loans and/or credit to get your business over a tight cash position. It will be repaid within one year. There are many sources of short-term financing. Some you looked at in this lesson are:

a. Banks and credit unions
b. Suppliers -- mercantile credit
c. Sales finance companies
d. Factoring companies
e. Commercial loan companies
f. Small Business Loans Act.

Other sources are becoming available to small businessmen. Federal government departments such as Northern Development and Indian Affairs are a possible source of short-term financing. Some provincial governments are developing loan programs to help the small businessman obtain short-term financing.

FAB43

It really does not matter whom you approach for short-term financing, they will want to know the following:

a. How much money you need
b. How you are going to use it
c. Whether your business will make more money
d. Whether they will be repaid
e. When they will be repaid.

SUBJECT MANAGEMENT PROCESS

LESSON MP14 THE MANAGEMENT FUNCTIONS REVIEWED

INSTRUCTOR'S GUIDE

OVERVIEW

The students have studied the four functions of management. This lesson is intended as a review of the four functions so that the students see the functions in perspective and how they relate to one another.

OBJECTIVE

The students will gain a better perspective of the management functions by means of a review of previous lessons.

RESOURCES REQUIRED

1. Lessons MP7, MP9, MP11, and MP13.
2. Flip chart.

METHODOLOGY

1. Hand out the Readings and read the Purpose and Introduction.

PURPOSE

This lesson will review the four management functions.

INTRODUCTION

You have learned the four management functions as well as a great deal in the different subjects of the course which will permit you to do a better job of management. In this lesson you will review each of the four management functions.

OBJECTIVE: THE STUDENTS WILL GAIN A BETTER PERSPECTIVE OF THE MANAGEMENT FUNCTION BY MEANS OF A REVIEW OF PREVIOUS LESSONS.

2. Read Sections 1 to 5. Before reading each section, have the students discuss the function involved in order to determine what they remember. Then read the section along with a review of the previous lesson and discuss it. The instructor will be able to provide many practical examples to make the lesson more useful.

CONTENT

1. Planning

Planning is the function of setting objectives, goals or standards for the business. These objectives may be financial (in terms of budgets) or they may be standards of work performance of employees; there can also be goals which the business must meet in terms of size, sales, services, etc.

(Refer back to lesson MP7, "The Planning Function", and review the Readings.)

2. Organizing

You will realize the need of organization in a business. Any business which has one or more employees will need some form of organizing. It can be quite simple with a few employees but should contain more detail as more people are involved. Each person will need to know his responsibilities or duties, his authority and how he communicates within the organization.

(Read lesson MP9, "The Organizing Function", as a review of the organizing material.)

3. The Directing Function

It has been mentioned that to many people the directing function is really what management means. A person in management directs people so that they help reach the business's objectives. Since these people are individuals with their own needs, there are often problems which develop. The manager's job can be a difficult one since he is concerned with the employee but he must at the same time reach the organization's objectives. This means he will need to know how to lead, motivate and communicate so that problems are avoided. The manager will have to know when and how to discipline.

(Review lesson MP11, "The Directing Function", to refresh your memory of the material in this lesson.)

4. The Controlling Function

The last function studied was the controlling function. This function is the necessity of checking the performance of the business against its plans, goals and objectives. If the manager does not make this check, it will not know how well it is accomplishing its plans.

(Refer to lesson MP13, "The Controlling Function", for a review of this function.)

5. Summary

Although the lessons were studied with planning first and controlling last, these functions are on-going in any business. Controlling leads to new plans and new plans require control to determine whether they are reached. Directing and organizing are also on-going functions which never cease as long as the business is in operation.

Indicator

3. Have the students review their two practical projects and analyze them from the management point of view. What management functions did they perform? Which ones did they not perform? Why? Would it now be easier to conduct a project? Have the students analyze in depth the management functions performed and determine how well they were performed.

MP14

Have the students list on the flip chart all the problems they have had in relation to the management functions in the projects and then discuss how these problems might be avoided in a future project.

SUBJECT PERSONAL FINANCE

LESSON PF6 PERSONAL INSURANCE

INSTRUCTOR'S GUIDE

OVERVIEW

Fire, theft, illness, injury or death can strike anyone at any time. In addition to personal grief and sadness, there is usually considerable financial loss as well. If any of these things happen to the owner-manager of a business, he may be forced to sell some or all of his business assets to meet expenses.

To protect themselves, individuals and families can purchase certain types of personal insurance. The type and amount of insurance will be determined by individual need and ability to pay insurance premiums.

Whether a person owns his business or not, there are certain types of personal insurance that he cannot afford to be without. One example is fire insurance and another is personal liability insurance.

The material is introduced by discussing insurance in general; what it is and how it works. The discussion then covers personal insurance; what it is and the difference between personal and business insurance.

The lesson points out that personal insurance is of particular importance to the owner-manager of a small business. This stems from the fact that the small businessman usually cannot afford serious or even moderate financial losses. He simply must protect himself with insurance coverage. Finally, the lesson points out the types of insurance that the businessman should consider.

The insurance field is complex and involved. All the lesson can do is create an awareness of the nature of insurance. The reference for this lesson is based on business insurance. Personal and business insurance are generally the same type of insurance but for different purposes. Greater detail about different types of insurance is provided in the lesson on business insurance.

OBJECTIVES

1. The students will know what insurance and personal insurance are, and how insurance coverage works.

2. The students will know the difference between business and personal insurance, and the importance of personal insurance to a businessman.

3. The students will know some of the types of personal insurance that are available, and the kind of protection each type provides.

REFERENCE MATERIAL FOR INSTRUCTOR

1. How to Run a Business. Ottawa: Information Canada, 1968, ch. 9.

RESOURCES REQUIRED

1. Flip chart
2. Projectual PF6-1, "Types of Personal and Financial Loss"
3. Case PF6-1, "Miller's Misfortunes"
4. Filmstrip, "Patterns for Protection"

METHODOLOGY

1. Hand out case PF6-1, "Miller's Misfortunes"; read the case and discuss the questions given.

2. Hand out the Readings and read the Purpose and Introduction.

PURPOSE

In this lesson you will discuss some types of personal loss you may suffer due to fire, theft, illness, injury, or death. You will also discuss:

1. The meaning of insurance
2. How insurance coverage works
3. The main reason for purchasing personal insurance
4. Some types of personal insurance that are available.

INTRODUCTION

Some questions which you should consider include:

1. What would happen if your home and everything in it were destroyed by fire?

2. What would happen if serious injury or illness prevented you from working for a certain length of time?

3. What would happen if someone sued you for a very large amount of money?

In addition to the sadness and grief that you and your family would suffer from these or similar losses, there would be serious financial problems as well; however, insurance is available to protect you against such losses. As owner-manager of your own business you should be fully aware of the protection that personal insurance can give you, your family, and your business assets.

OBJECTIVE 1: THE STUDENTS WILL KNOW WHAT INSURANCE AND PERSONAL INSURANCE ARE, AND HOW INSURANCE COVERAGE WORKS.

Stimulus

3. Ask: "What do the terms insurance and personal insurance mean to you?" Encourage discussion. Have one of the students list answers on the flip chart.

Clarify Problem

4. Ask: "How does insurance coverage work?" You may have to clarify the above question by asking: "When you buy insurance coverage, what do you have to do and what does the insurance company promise to do?" Encourage discussion. Have one of the students list answers on the flip chart.

Ask: "How do you feel about insurance? Is it a good thing? Why? Why not?" Have one of the students list the advantages and disadvantages of insurance on the flip chart. Encourage students to relate any experiences they may have had when purchasing insurance, and any experiences they may have had in making a claim to the insurance company.

Provide Information

5. Read Sections 1, 2 and 3 of the Readings and discuss. Compare each section of the Readings with the answers on the flip chart.

CONTENT

1. What is Insurance?

Insurance is financial protection against certain types of loss.

When you purchase an insurance policy of any kind you agree to make payments to the insurance company at certain times of the year. In exchange for these payments the insurance company promises to pay you a certain amount of money if you suffer a loss which is covered by the policy.

The payments you make to the insurance company are called insurance premiums.

2. How Does Insurance Coverage Work?

Everyone who buys insurance coverage pays a premium to the insurance company.

Many people buy insurance coverage, but only a very few of them suffer losses and claim payment from the insurance company. For example, the number of people who purchase fire insurance on their homes is quite large. But very few of them have fire losses. This means that each person (or family) pays a low insurance premium each year. However, the total amount paid into the insurance company is large enough to offset (or cover) the serious losses suffered by a few people (or families). This is known as spreading the risk.

3. What is Personal Insurance?

Personal insurance is insurance which provides a person or family with financial protection against certain types of personal losses, for example: loss by fire or theft, loss of life, or loss of job through injury.

Personal insurance coverage provides a money payment to compensate (repay) the person or family for the financial loss that takes place.

Indicator

6. Students answers to questions and discussion of Reading material will indicate whether this objective has been achieved.

OBJECTIVE 2: THE STUDENTS WILL KNOW THE DIFFERENCE BETWEEN BUSINESS AND PERSONAL INSURANCE, AND THE IMPORTANCE OF PERSONAL INSURANCE TO A BUSINESSMAN.

Stimulus

1. Ask: "What is the difference between business and personal insurance? Discuss, encouraging students to give examples. List answers on the flip chart.

Clarify Problem

2. Show projectual PF6-1, "Types of Personal and Financial Loss". Ask: "If any of these things happened to you, what effect would it have on you and your family? What would happen to your business?" Encourage discussion.

Provide Information

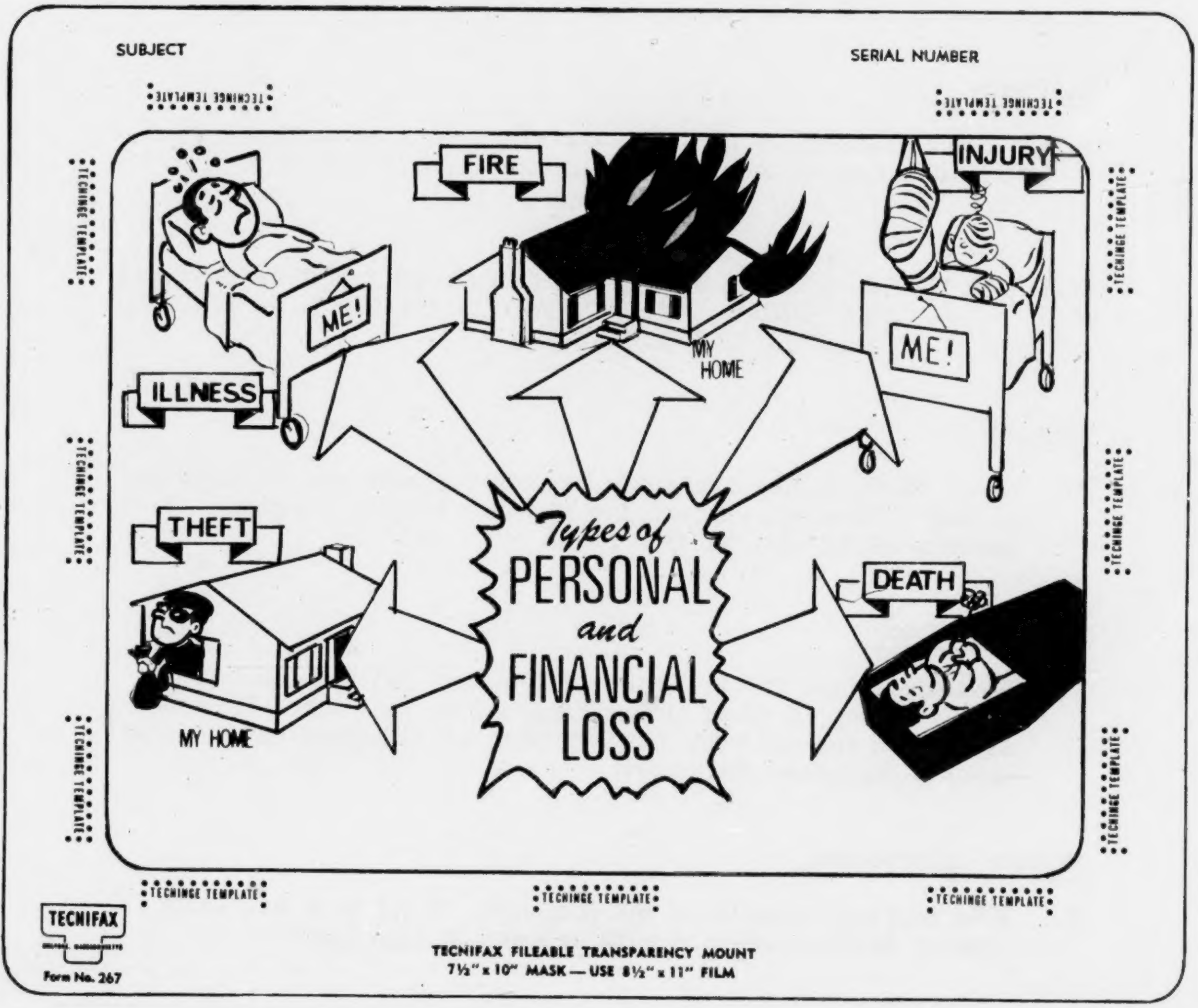
3. Read Sections 4 and 5 of the Readings. Discuss as necessary. Compare Reading material with answers on flip chart.

4. Personal Insurance and Business Insurance

Personal insurance and business insurance are not the same. For example, you should have fire and theft insurance

PF6

PF6-1 TYPES OF PERSONAL AND FINANCIAL LOSS


SUBJECT
SERIAL NUMBER
TECHINGE TEMPLATE
FIRE
INJURY
ME!
ILLNESS
MY HOME
ME!
THEFT
Types of PERSONAL and FINANCIAL LOSS
DEATH
MY HOME
TECNIFAX
Form No. 267
TECNIFAX FILEABLE TRANSPARENCY MOUNT
7½" x 10" MASK — USE 8½" x 11" FILM

on your business (on the building, stock and fixtures). In addition, you should have fire and theft insurance on your home and personal possessions (furniture, clothing, kitchen utensils, etc.)

Any insurance you carry on your business is a business expense the same as wages, electricity, heating, etc. These expenses are some of the ones that you use to calculate the profit and loss of your business. Fire insurance on your home and personal possessions is personal insurance. It cannot be used to calculate the profit or loss of your business.

5. Personal Insurance is Valuable to You as Owner-Manager of Your Own Business

Certain types of personal insurance are valuable to almost everyone. For example:

a. Fire insurance protects you against financial loss whether you own your own home or rent an apartment.

b. Personal liability insurance is important in case you injure someone with your car. If you do cause injury to someone they could sue you. If they sue you and win, the insurance company will pay the money for you, if you have personal liability insurance.

c. If you die leaving a wife and children, life insurance will provide the money that your family will need when you are no longer there to earn an income.

When you own your own business, personal insurance is just as important - perhaps even more important. You may ask: "Why?" The reasons are that when you start your own business you:

a. Will likely invest most or all of your own savings in your business.

b. May borrow money from friends or relatives to invest in your business.

c. May borrow money from a government agency, credit union or bank to invest in your business.

Now suppose that:

a. You are injured or become ill and couldn't work for one or two years.

b. You accidently injure someone with your car and they sue you for $20,000 damages - and win.

c. Your house and all your personal possessions are destroyed by fire.

If any of these things happen and you do not have personal insurance, you may have to sell some or all of your business assets:

a. to have enough money to live on while you cannot work,

b. to pay the $20,000 damages to the person who sued you, or

c. to get the money you need to build another house (or rent an apartment), buy clothing, dishes, furniture and other things you need.

If this happens, you could lose some or all of the money you invested in the business. In addition, you would have a hard time repaying the loans you obtained. Perhaps you would not be able to repay them at all. You could lose everything you worked and saved to build.

As you can see, personal insurance protects you and your family from serious financial loss. In addition, personal insurance helps to protect your business assets.

Indicator

4. Students' answers to questions and discussion of Reading material should indicate whether this objective has been achieved. Review if necessary.

OBJECTIVE 3: THE STUDENTS WILL KNOW SOME OF THE TYPES OF PERSONAL INSURANCE THAT ARE AVAILABLE AND THE KIND OF PROTECTION EACH TYPE PROVIDES.

Stimulus

1. Ask: "Do you feel you will need any personal insurance if you start your own business? If so, what kind of protection (insurance) would you want? Why?" Have one student list the different types of insurance suggested on the flip chart. Also list any reasons given why insurance would not be purchased.

Clarify Problem

2. Discuss the answers given. Point out that buying insurance is a personal decision that each person must make for himself.

Provide Information

3. Read and discuss Sections 6 and 7 of the Readings.

6. What Type of Personal Insurance Do You Need?

If you plan to start and operate your own business, you may want to consider some of the following types of personal insurance.

a. Life Insurance

The basic purpose of life insurance is to provide the money that your family will need if you should die at an early age. Some types of life insurance provide for income after retirement age.

However, the particular type of life insurance that you may want depends on your needs. You can work this out with a trustworthy insurance agent.

b. Fire Insurance

If you are like most businessmen, you will probably carry some fire insurance on your business. In addition you should seriously consider fire insurance on your home and personal possessions (such as clothing, furniture, etc.) or just on your personal possessions if you live in an apartment. If you do not have insurance you might lose everything and you will have to replace this loss yourself.

c. Sickness and Accident Insurance

In addition to Medicare Insurance (which covers hospital and medical expenses), you can buy Sickness and Accident Insurance. This type of insurance provides a certain level of income if you are ill or injured and cannot work for a certain length of time. You usually have to wait for a certain length of time (depending on the type of policy) before insurance payments start. Payments continue for a certain number of months or years then stop. Payments for disability under a sickness and accident insurance policy may last, provided disability continues, only a few years under some policies up to age 65 under other policies. The difference in length of benefit will greatly increase the cost.

Sickness and accident insurance can be valuable to you and your employees.

d. Theft Insurance
To protect home or apartment against loss by theft you can buy theft insurance. Theft insurance is usually purchased as part of what is called a "Homeowners Policy". There are many different kinds of these policies. You should talk to an insurance agent to see which policy is best for you.

e. Car Insurance
You should have at least one hundred thousand dollars ($100,000.00) worth of personal liability and property damage insurance on your car. If you hurt somebody or somebody's property you can be sued. You should talk to an insurance agent before deciding on the best car insurance policy for you.

NOTE: In Saskatchewan and Manitoba, a certain amount of car insurance is included with the purchase of your licence plates. This insurance covers the cost of replacing or repairing your car if it is destroyed or damaged as well as limited passenger insurance and personal liability.
(In other provinces insurance is purchased separately).

7. Summary

The various types of personal insurance that we have discussed are designed to protect you and your family from various types of personal losses. In addition, insurance can help protect your business assets.

You may or may not want to purchase insurance. Whether you do or not is your decision and will depend on whether you feel you need such insurance. The question you need to ask yourself is, "Could I afford the kinds of personal loss that we have discussed in this lesson?" You must decide on the right answer.

It is quite possible that someone does not have enough insurance. On the other hand it is also possible to have too much insurance so that the payment of premiums is too great.

PF6

A person can have so much insurance he is "insurance poor".

Generally insurance should only be carried for losses which would be a severe financial loss.

4. Show filmstrip, "Patterns of Protection". Discuss.

Indicator

5. Students' reasons why they would or would not buy insurance plus discussion of the reading material will serve as an indicator. Review if necessary.

SUBJECT PERSONAL FINANCE

LESSON PF6 PERSONAL INSURANCE

CASE PF6 - 1

MILLER'S MISFORTUNES

Mr. Miller, who had a wife and 4 children, ran a retail store in a nearby town. He had borrowed a lot of money to get the store going. In fact, he had mortgaged his home and other belongings to help pay for the store building and inventory. Mr. Miller still owed a lot of money to the bank and to suppliers.

Late one night Mr. Miller was driving home from a party. He was tired and a little drunk. When he drove into his driveway he was going too fast and smashed the car into the side of his house. The car caught fire and burned the house down. Mr. Miller had a broken leg but managed to crawl out of the car. He had a badly burned face. His wife and kids escaped from the burning house but there was no time to save any of the furniture. The house and car both burned to the ground.

Mr. Miller was taken to the hospital and would have to spend at least six weeks in bed.

Mr. Miller had no insurance on his life, house, furniture, car, and he had no accident insurance. He always said he couldn't afford to buy insurance.

Questions for Discussion

1. What will happen to Mr. Miller's business? His family?
2. What kinds of insurance should Mr. Miller have had. Why?

SUBJECT PERSONAL FINANCE

LESSON PF7 YOUR WILL AND ESTATE

INSTRUCTOR'S GUIDE

OVERVIEW

A large percentage of people die each year without leaving a will. Many people hesitate to make a will because they feel they do not have anything to leave or because they think they are too young to die. However, many of these people do die, and do have assets in their estates. Even if the value of the estate is small, much trouble, expense and inconvenience can be saved if there is a will.

Many native people do not see the need for a will because they know that the Department of Indian Affairs will take care of settling their estates. If there is no will, the Department will not take into consideration any special factors. If a native person wishes his estate settled in a particular way, he must make a will, especially if a family business is part of the estate. It is only by means of a will that a person can be assured that his possessions will be distributed after his death as he intended them to be.

OBJECTIVES

1. The students will know how their estate will be distributed if they die without leaving a will.
2. The students will learn about making a will, who to see about making a will, the types of wills and the cost involved.
3. The students will learn that they can change the terms of their wills whenever they wish. They will also learn about some things which their wills should contain.

REFERENCE MATERIAL FOR INSTRUCTOR

1. Anger, W.H. and Anger, H.D. Summary of Canadian Commercial Law. Toronto: Sir Isaac Pitman (Canada) Ltd., 1962, pp 443 - 454.

2. Chapman, F.A.R. Fundamentals of Canadian Law. Toronto: McGraw-Hill Company of Canada Ltd., 1965, pp. 325 - 335.

RESOURCES REQUIRED

1. Case PF7-1, "December Disaster"

2. Flip chart

3. Copies (one for each student) of the wills used for Treaty Indians and distributed by the Department of Indian Affairs. If available, completed samples of a will.

4. Resource person to relate some experiences of estates, point out features of wills, and answer questions.

METHODOLOGY

1. Hand out the Readings and read the Purpose and Introduction. Keep discussion to a minimum so as not to destroy the effect of the case.

PURPOSE

In this lesson you will examine the subject of your estate and how your estate will be distributed if you don't have a will. You will discuss various aspects of making a will.

INTRODUCTION

Whether you have few or many possessions, you will likely have some definite ideas about who should receive your possessions after you die. The only way you can be assured that your possessions will go to the people you want them to go to is by making a will. Without a will you lose all control over the way your possessions (estate) will be distributed.

An individual or a company that is experienced in making out wills (lawyer, trust company, etc.) can make out your will for you. You are then sure that the wording will be correct and that the distribution of your estate will go according to your wishes.

A will assures you that your estate will be distributed as you want it to be. Because a will does not take effect until after your death, you do not lose any control over your estate while you are alive. In addition, you can change your will any time you wish simply by making out a new one and revoking all previous wills. Thus, you have both the protection that a will gives your family and heirs as well as the freedom to change it as your circumstances change.

OBJECTIVE 1: THE STUDENTS WILL KNOW HOW THEIR ESTATE WILL BE DISTRIBUTED IF THEY DIE WITHOUT LEAVING A WILL.

Stimulus

2. Pass out and read case PF7-1, "December Disaster". The purpose of this case is to determine the extent of the student's awareness of the procedures involved in settling an estate when an individual dies intestate (without leaving a will).

Clarify Problem

3. Ask the following questions when the case has been read. Have one of the students list the answers on the flip chart.

   a. Who will look after the children now that they have lost their parents?

      Encourage the students to discuss this question freely. The main point to be considered here is the fact that the courts will determine who shall be guardian because there was no will naming a guardian. The guardian named may or may not be the grandparents (Norman's mother and father).

   b. What will happen to the farm (land, buildings, equipment, livestock, etc.)?

      After the students fully discuss this question, point out (if they have not already done so) that the court will decide how the farm and other assets are to be disposed.

c. Who will receive the estate? That is, how will the estate be distributed and to whom?

The entire estate will likely go to the children, but since they are not of legal age, the money will be held in trust for them until they are of legal age. The guardian, with the consent of the courts (or administrator) will be allowed to draw from these trust funds to cover expenses in looking after the children.

d. What do you think Norman and Doreen should have done (while they were still alive) to prevent the delay, confusion, uncertainty, expense and hardship to the children?

They should have BOTH made wills. A guardian or guardians should have been named and instructions should have been included specifying how and in what form the estate was to be distributed in the event of their untimely death.

4. The instructor should feel free to discuss any other aspects of the case in which the students show interest. However, it should be apparent that the confusion, uncertainty and hardship to the children could have been reduced somewhat if Norman and Doreen had made out wills.

Provide Information

5. Read Sections 1 and 2 of the Readings. Discuss as necessary.

CONTENT

1. Your Estate

All the property you own is part of your estate. This could include such things as:

a. personal property: car, furniture, books, clothing, etc.

b. real estate: any land, buildings, stock, etc., that you own.

c. cash: any cash that you have in bank accounts and elsewhere.

2. What Happens if You Die Without Leaving a Will?

If you die 'intestate' (without leaving a will), you will have no control over the distribution of your estate after your death. Your estate will be distributed to your heirs by an administrator (named by the courts) according to the regulations of the Intestate Succession Act. Each province has an Act of this type.

In one province according to this Act, if you die leaving an estate with a net value of less than $20,000, the entire estate goes to your widow. If the estate is larger than this amount, your widow receives $20,000 and the remainder is divided as follows:

a. if one child, half of the remainder of the estate to your widow and half to your child.

b. if more than one child, a third of the remainder of the estate to your widow and two thirds divided equally among your children.

Some other regulations to note are:

a. if either your son or daughter is dead but has children living, the children receive their parents share.

b. if you have no children, your widow gets the entire estate.

c. if you have no widow or descendents (children or grandchildren) your estate goes to your nearest kin in the following order:

   (1) parents

   (2) brothers and sisters (or if they are dead, to their children)

   (3) grandparents

   (4) aunts and uncles

   (5) cousins

d. if you have no heirs at all, then your estate goes to the Crown (to the government of the province).

Check the legislation in your province to see how it differs from the points made above.

Indicator

6. The discussion of the case questions will serve as an indicator.

7. Ask: "What would happen to your children and estate if you were involved in a fatal accident?" Discuss.

OBJECTIVE 2: THE STUDENTS WILL LEARN ABOUT MAKING A WILL, WHO TO SEE ABOUT MAKING A WILL, THE TYPES OF WILLS AND THE COST INVOLVED.

Stimulus

1. Ask: "What is a will?" Write suggestions on the flip chart and discuss.

Clarify Problem

2. Ask: "If you make out a will leaving your estate to someone or more than just one person, when does that person or those people receive your estate?"

   The purpose here is to determine if any of the students feel reluctant to make out a will on the incorrect assumption that they may lose some control over their possessions immediately.

3. Ask: "Who can make out a will?"

   The students may not be aware of age restrictions and the requirement that the person be mentally competent in order to make out a legal will. Furthermore, someone may think that a wife cannot or need not make out a will, which is incorrect.

4. Ask: "Who is the maker of a will?" Clarify this question by the following example:

   > Suppose you go to a lawyer or someone else who is experienced in drawing up wills. You tell him what you want in your will and he draws up your will. Who is the maker of the will?

   The purpose here is to correct any mistaken impression caused by such commonly used statements as "my lawyer made out my will for me." In fact, your lawyer draws up your will but you are the 'maker' because you sign the will.

Provide Information

5. Read Sections 3, 4, 5 and 6 of the Readings. Compare answers on the flip chart with the information given in the Readings. Clarify as necessary.

3. Making a Will

A will is a legal document that describes in detail how a person wants his estate distributed after his death.

If you die 'testate' (leaving a will), your estate will be distributed by an executor (named by you) according to the instructions that you put in your will.

A will does not take effect until after you die. Therefore, you do not lose control of your property when you make out a will.

Any mentally competent person (man or woman) who has attained the age of majority can make a will. The age of majority will vary in the different provinces from 18 to 21 years. A married person or a person in the armed forces can make a will regardless of age.

The maker of a will is the person who signs it. If you have someone else (a lawyer, for example) fill out your will, you are still the maker of your will because you sign it.

4. Who to See About Making a Will

The wording of your will is very important because a will is a legal document requiring the use of correct legal terms, and because if anything written in your will is not clear, you won't be there to explain what you actually meant.

Therefore, you should have a qualified person (lawyer or someone experienced in making wills) draw up your will for you. Homemade wills can cause unnecessary delay, uncertainty and expense.

5. Types of Wills

a. Solemn Will
This is the ordinary or usual form of a will. This type of will is made out according to your instructions by someone who is qualified and experienced in making out

wills, and it is witnessed by two people.

This means that your estate will be distributed the way you want it to be distributed, proper legal wording will be used, and there will be no dispute over the fact that you (the maker) actually signed your own will because two people will have watched (witnessed) you do so.

You can choose any two persons you want to act as witnesses when you sign your will. However, it is important to note that any person (or the husband or wife of a person) who is named in your will to receive any part of your estate cannot also be a witness.

b. Holograph Will
If you make out a will entirely in your own handwriting, and sign it yourself, witnesses are not needed. This type of will is certainly much better than no will at all, but it should be used as a temporary measure only. It should be used only until you can make out a Solemn Will. The reason is that the wording you use in making out your Holograph Will may cause uncertainty, delay and unnecessary expense in settling your estate.

In Saskatchewan, Alberta, Manitoba, Quebec, New Brunswick and Newfoundland Holograph Wills are legal. In the rest of the provinces they are not legal and are therefore of no value.

6. Cost of Will

A solemn or ordinary will is likely to cost from $10.00 to $50.00 depending on who makes it out for you and the work involved in making the will. Most wills are nearer the lower cost rather than the higher. However, the cost is very small compared to the delay, uncertainty and expense involved if you don't leave a will or if you leave a Holograph will that is not properly worded.

Indicator

6. Group discussion. Review any parts of the lesson that are giving trouble up to this point, if necessary.

OBJECTIVE 3: STUDENTS WILL LEARN THAT THEY CAN CHANGE THE TERMS OF THEIR WILLS WHENEVER THEY WISH. THEY WILL ALSO LEARN ABOUT SOME THINGS WHICH THEIR WILLS SHOULD CONTAIN.

Stimulus

1. Ask: "If you make out a will and want to change it at a later date, do you have to check with anyone or get anyone's permission? If so, why? If not, why not?" Discuss.

2. Ask: "Suppose you make out a will when you are 23 years old. Four years later you get married, buy furniture, etc. Would you need to change your will nor not? Why?" Discuss.

Clarify Problem

3. Ask: "Is there any reason why you should change your will from time to time? Why or why not?" Discuss.

4. Ask: "If you do decide to change your will, what happens to the previous will you made out? Could there by any confusion over which will contains your true wishes?"

5. Have one of the students write "Things My Will Should Include" at the top of the flip chart. Start the discussion by suggesting, for example, that the date must appear on the will. Ask for other things they think should be included or done when making out a will. Discuss.

Provide Information

6. Read Sections 7, 8 and 9 of the Readings. Relate material back to the questions by comparing with suggestions on the flip chart, Discuss.

7. Changing the Terms of Your Will

You do not have to ask anyone for permission to change your will. You are free to change it anytime you wish. You simply make out a new one. You do not even have to destroy your old will (although you can if you wish) because all wills contain the following clause (or one similar to it):

"I hereby revoke all former wills at any time made by me". This statement means that any will or wills that you made out previously are no longer any good. They are no longer legal.

Some other things that may cause a will (or parts of it) not to be legal are:

a. marriage

b. the death of anyone you named in your will to receive all or part of your estate

c. if you dispose of any of the property that you left to someone in your will.

If any of these things happen you should make out a new will. You should review your will at least every three to five years, or sooner if circumstances change.

8. What Should Your Will Include?

A will is a personal document and it is impossible to state exactly what should be included in a will. There are, however, certain things that every will should include. These are:

a. your name, address and your occupation.

b. the date

c. a statement indicating that this is your last will and revoking any previous wills

d. the name of an executor to carry out the instructions in your will

e. the name of a guardian for your small children. This is necessary if you are the only parent living or in the case of 'common disaster' (if both you and your wife/husband are killed in the same accident)

f. a provision for payment of debts

g. an indication of any special gifts and who is to receive them

h. a provision for the disposal of the residue of your estate

i. the names of the two witnesses who signed your will

9. Summary

Every adult should make a will, no matter how small his estate might be. The only way you can be assured that your possessions will go to the people you want them to go to is by making a will that is clear and legal.

You should review your will every few years and change it as your circumstances change.

7. Arrange for a resource person if available to answer the students' questions.

Indicator

8. Group discussion.

SUBJECT PERSONAL FINANCE

LESSON PF7 YOUR WILL AND ESTATE

CASE PF7 - 1

DECEMBER DISASTER

Norman Jay has been farming for about 20 years. Norman and his wife Doreen have been married for 16 years and have three children - aged 14, 12, and 6 years.

When Norman started farming he bought three quarters of land from his father. It was agreed that whenever his father stopped farming, Norman would buy the other three quarters of land as well. Norman had bought four quarters of land from a neighbour who had retired. He still owed $15,000.00 on the purchase of this land.

Norman had 43 head of cattle, 33 pigs and some ducks, geese and chickens. He had a full line of machinery, including a combine, tractors, cultivators, swather, etc. The Jay's owned a car, half-ton truck and a three-ton truck.

Norman's mother and father lived just across the road. Norman had no brothers or sisters. Doreen's father had died about six years ago after a lengthy illness. Her mother had recently remarried and lived in the city. Doreen had one brother and one sister.

Norman had purchased a life insurance policy ten years ago. The proceeds of the policy were to go to Doreen if anything happened to him.

The manager of the local bank had recently asked Norman if his will was up to date. He was rather shocked to learn that neither Norman nor Doreen had a will. The manager's last remark on the subject had been, "Well you know, Norman, a will never killed anyone."

Early in December Norman and Doreen made a trip to the city. Returning home that evening they hit a slippery stretch of highway about

26 miles from home. The car went out of control and crashed into an oncoming transport truck.

Norman and Doreen both died in the accident.

Questions for Discussion

1. Who will look after the children now that they have lost their parents?

2. What will happen to the farm (land, buildings, equipment, livestock, etc.)?

3. Who will receive the estate? How will the estate be distributed and to whom?

4. What do you think Norman and Doreen should have done (while they were still alive) to prevent the delay, confusion, uncertainty, expense and hardship to the children?

SUBJECT BUSINESS LAW

LESSON BL12 INSOLVENCY AND BANKRUPTCY

INSTRUCTOR'S GUIDE

OVERVIEW

Every businessman should accept the possibility that he may at some time become insolvent or even bankrupt. Ideally, anyone faced with serious financial problems should never let them reach the point of insolvency or bankruptcy; he should take corrective action long before he is faced with either of these possible results. However, businessmen are just as capable of making mistakes, committing errors in judgment and overlooking warning signs as anyone else. Disregarding problems or hoping they will somehow solve themselves has given many businessmen the opportunity to see just how the Bankruptcy Act works.

In addition to the workings of the Bankruptcy Act, some of the common causes of bankruptcy are examined in this lesson. Students will likely recognize that, in this course, they have been discussing and learning how to do many of the things that bankrupt businessmen failed to do.

Although no businessman goes into business with the expectation of failing, the statistics containing information about business starts, show that a great many businesses do fail each year. Since the problem won't go away, the only alternative is to examine it closely and discuss its characteristics.

BL12

OBJECTIVE

The students will examine some of the common causes of business failure and will become familiar with the procedures involved in insolvency or bankruptcy.

RESOURCES REQUIRED

1. The Readings from lesson MP5, "Success and Failure in Business".

REFERENCE MATERIAL FOR INSTRUCTOR

1. Anger, W.H. and Anger, H.D. Summary of Canadian Commercial Law. Toronto: Sir Isaac Pitman (Canada) Ltd., 1962, pp. 428 - 442.

2. How To Run a Business. Ottawa: Information Canada, 1968, pp. 183 - 190.

METHODOLOGY

1. Hand out the Readings; read and discuss the Purpose and Introduction with the group.

PURPOSE

Throughout this course you have learned about and discussed those things you should do to start your own business. You have also discussed those things you can do which will help you to operate your business successfully. However, to be realistic, it is also necessary to recognize that business firms fail.

In this lesson we discuss the procedures that should be followed if you are faced with insolvency and/or bankruptcy.

INTRODUCTION

Every businessman must face the possibility that he may be unable to meet his financial obligations. Faced with this situation, it may be unwise or indeed impossible for him to carry on. This lesson tries to answer the question, "What does he do then?"

The discussion of business failure in this lesson will concentrate mainly on small business situations. The procedures for bringing a limited company or a co-operative to an end are similar - but generally much more complicated.

A review of lesson MP5, "Success and Failure in Business", is a good starting point for a discussion of the material that follows.

OBJECTIVE: THE STUDENTS WILL EXAMINE SOME OF THE COMMON CAUSES OF BUSINESS FAILURE AND WILL BECOME FAMILIAR WITH THE PROCEDURES INVOLVED IN INSOLVENCY OR BANKRUPTCY.

Stimulus

2. Ask: "What does it mean if we say a person or a businessman is insolvent?"

Discuss this briefly with the students. Try to discourage anyone from looking up the meaning in the Readings; the objective is to see if any of the students already know the meaning.

Ask: "What does it mean when we say that a person or a businessman is bankrupt?"

Discuss this briefly with the students.

Tell the students that these are some of the terms that are used to describe situations that can result if a business fails.

Clarify Problem

3. Read Section 1 of the Readings. Discuss each definition.

CONTENT

1. Some Definitions

The procedures relating to insolvency and bankruptcy are very technical in nature and must be handled by lawyers and licensed trustees in bankruptcy. However, in order to understand any discussion about insolvency and bankruptcy there are certain terms with which you should be familiar. These include:

a. Insolvency
This term refers to the situation of a person or businessman who, although not bankrupt, has liabilities of at least $1,000; and:

(1) who is for any reason unable to meet his debts as they fall due; or

(2) who has ceased paying his debts as they fall due; or

(3) whose liabilities exceed the realizable value of his assets (that is, if his assets were sold there would not be enough money to pay off his liabilities).

b. Bankruptcy
Bankruptcy refers to the situation of a businessman who has either voluntarily turned his assets over to a trustee for the benefit of his creditors or who has had his assets seized by a receiving order made against him (under the Bankruptcy Act) by his creditors.

NOTE: Whereas the term INSOLVENCY describes a financial condition, BANKRUPTCY describes a legal condition. That is, a person may be insolvent without yet having become bankrupt.

c. Superintendent of Bankruptcy
This is a person who is appointed by the federal government to see that the provisions of the Bankruptcy Act are carried out. He keeps a record of all the bankruptcy proceedings in Canada. He has the power to check and see if all insolvent estates are being administered or handled properly.

d. Bankruptcy District
The Bankruptcy Act makes each province a bankruptcy district.

e. Bankruptcy Division
Each bankruptcy district may be divided into two or more bankruptcy divisions depending on the size of the province.

f. Licensed Trustee
This is a person who is appointed by the courts to handle the affairs of a bankrupt debtor. If the creditors do not agree with the appointment, they may, with the approval of the courts, appoint a trustee themselves.

g. Bankruptcy Inspectors
The Bankruptcy Act requires that the creditors appoint inspectors (not to exceed five in number) to advise the licensed trustee and to review and approve his accounts. This regulation helps to ensure that the whole matter is handled properly at each step along the way.

4. Tell the students that there are a number of reasons why a business may come to an end. Insolvency and bankruptcy are two reasons that were mentioned in Section 1 of the Readings. There are at least two other reasons mentioned in Section 2 of the Readings.

5. Read Section 2 of the Readings with the group. Discuss

2. Some Reasons Why Businesses Cease to Exist

Businesses come (or are brought) to an end for various reasons. These reasons may include:

a. The death of the owner
b. Voluntary dissolution (the owner simply decides he doesn't want to continue his business anymore).
c. Insolvency
d. Bankruptcy.

We will be discussing insolvency and bankruptcy at some depth in this lesson.

6. State: "As you can see insolvency and bankruptcy are two of the reasons given for business failure. What types of things do you think cause businesses to go bankrupt? That is, what leads to or causes bankruptcy?"

List answers on the flip chart. Discuss to ensure students understand what each means.

7. Read Section 3 of the Readings. Compare the answers on the flip chart with those given in the Readings. Discuss as necessary.

3. Causes of Insolvency and Bankruptcy

Bankruptcy is almost always caused by poor business management. Some of the major causes include:

a. Insufficient Capital
This means that the owner-manager's judgment in estimating his business requirements was faulty. It could mean that the business was over-extended, having accepted or extended too much credit.

Be sure that you have enough capital for your business, and further, that you have a surplus which is adequate to meet emergencies or your own errors in judgment.

b. Excessive Owner Drawings
Some owner-managers draw too much money out of the business for their own use. What this means is that they are using up the working capital that would normally be available for operating the business.

If you start your own business you may be well advised to leave most of the profits in the business until it becomes well established and financially sound. Accepting a moderate salary for the first few years could be the difference between success and failure.

c. Failure to Keep Adequate Books and Records
Failure to set up and maintain proper accounting records means that you will never know the exact state of your business. If you are never exactly sure what the financial condition of your business is, you will not be in a position to recognize problems as they develop. As a result, you may do nothing about these problems until it is too late.

d. Pricing Goods Incorrectly
As you saw in lesson MKT8, "Setting Prices", pricing your goods or services is very important to your success or failure as a businessman. For example, if the margin you add to the cost price of your goods is too small you can gradually go broke even though your sales volume is high.

e. Dishonest Employees
Dishonesty among employees often plays a major part in the decline and eventual failure of a business firm. This does not mean that employees are basically dishonest. However, if you never correct employees when they handle stock and money incorrectly, you are almost inviting them to do whatever they want with your money and stock. Temptation of this type sometimes ends up in dishonest actions. Not only does the business suffer but the employee's reputation suffers when he or she is eventually caught.

f. Lack of Experience and Training
In lesson MP4, "What is Management", you discussed some of the many things that a manager must do in order to operate his business successfully. Unless you can get expert advice whenever you need it (remember the fees are usually high), you will need experience and training to help you make the best decisions for your particular situation. It is difficult to say how much experience, what type (or types) of experience, or how much training is necessary. However, there are certain basic things that everyone who is planning to go into business should know. Throughout this course you have been discussing such things.

g. Illness of the Owner-Manager
If the owner-manager becomes ill for any length of time and he is not covered by insurance, the business can go bankrupt.

h. Poor Business Location

Too small a market or too much competition can break any business. Poor geographic and community factors can also be sources of bankruptcy.

i. Rents Which are Too High for the Volume of Business
If all the profits are being spent for too high a rent, the business will have insufficient funds for business requirements (to pay its bills, to build up the business, or to provide for emergencies).

8. The discussion to this point has covered:

   a. some of the important definitions relating to insolvency and bankruptcy;
   b. some reasons why businesses cease to exist:
   c. some of the more common causes of business failure.

   For the remainder of the lesson, attention is focused on the procedures involved in insolvency and/or bankruptcy.

   Ask: "What should a person or a businessman do if he is insolvent or is faced with serious financial difficulty?" Discuss this with the students. If necessary, list answers on the flip chart.

Provide Information

9. Read and discuss Section 4 of the Readings with the students.

4. An Insolvent Debtor
If you find your business is operating at a loss, that you have very little capital left, that you are unable to meet your debts as they come due, and that your liabilities are $1,000 or more, do not wait until you have nothing left and are forced into bankruptcy by your creditors. Consult a chartered accountant, or better still, one of the licensed bankruptcy trustees. Have a trustee examine your business and recommend the best course of action. Even if you are in financial difficulty, you may be able to make some arrangements with your creditors to avoid bankruptcy. For example, your creditors may agree to smaller payments or even the suspension of payments for a short time.

The licensed trustee must approve any such arrangements you may make with your creditors because of the regulations of the Bankruptcy Act.

10. State: "The following section of the Readings covers the alternatives that are available to you if you should become insolvent. Let's read this material now and discuss the procedures involved." Read Section 5 of the Readings.

5. Procedures to Follow if You Become Insolvent

If your business has become insolvent, there are two alternatives open to you:

a. You may, without becoming bankrupt, file a proposal (including a statement of your financial condition) with a licensed trustee in which you offer to settle your debts with your creditors on certain terms.

The trustee then calls a meeting of your creditors so that they can consider the proposal and either accept it or reject it. If both the creditors and the courts approve the proposal, it is binding on all creditors.

NOTE: Creditors and the courts will approve a proposal only if the business has prospects of being a success.

b. You may assign all your property to a licensed trustee for the benefit of your creditors -- thus becoming bankrupt. In order to make an assignment you must meet certain conditions (outlined when INSOLVENCY was defined in Section 1 of these Readings.)

You may not get a chance to decide which one of the above alternatives you will act on. That is, your creditors may have acted (by petitioning the court to have you declared bankrupt) before you have had a chance to decide what you are going to do.

If you are insolvent, a creditor or a group of creditors whose claim or claims against you amount to $1,000 or more, may petition the court for a receiving order, provided that you have lived in or carried on business in Canada and have committed an act of bankruptcy within the six (6) month period prior to the filing of the petition.

An act of bankruptcy includes:

a. A debtor's inability to pay his debts as they become due.

b. Anything that the debtor does which indicates that he intends to cheat his creditors of the money he owes them by removing his assets from their usual location or by attempting to secretly dispose of them.

c. Any attempt by the debtor to sell his assets without telling the prospective buyer that he is insolvent.

If your creditors petition the court to have you declared bankrupt, the court holds a hearing at which arguments for and against the petition may be presented. The court then decides whether or not to have you declared bankrupt. If the decision is to have you declared bankrupt, a trustee is appointed to take immediate possession of all your property.

11. State: "Anyone who becomes bankrupt (whether voluntarily or by court order) has certain duties that he must perform according to the regulations of the Bankruptcy Act. Do you have any idea what these duties might be?" (It is not too likely that many, if any, of the students will be familiar with these duties.) If none are, continue and read Section 6 of the Readings. Discuss.

6. Duties of a Bankrupt Debtor

If you are declared bankrupt, there are certain duties that you must perform. These include:

a. Submitting yourself for examination by the courts and the licensed trustee in bankruptcy.

b. Attending the first meeting that is held with your creditors.

c. Fully disclosing all of your assets.

d. Assisting the trustee in every possible way in the administration of your estate.

Failure to perform these duties as required can result in you being charged under the regulations of the Bankruptcy Act.

12. Ask: "If you are judged bankrupt by the courts, what happens to your property?" Discuss answers provided.

Ask: "What are the rest of the steps that take place after a person or businessman is declared bankrupt." List answers on the flip chart. Discuss.

13. Read Section 7 of the Readings. Compare the list on the flip chart with the information provided in the Readings.

7. Bankruptcy

Once you have been judged bankrupt by the court, control over all your property passes to a licensed trustee in bankruptcy. He immediately takes an inventory of all your property. He then calls a meeting of your creditors. At this meeting your creditors:

a. Decide whether they will accept the trustee that was appointed by the courts or elect another;

b. Examine your financial condition and state of affairs;

c. Make any suggestions to the trustee that they consider are necessary; and

d. Appoint inspectors.

NOTE: The inspectors have certain duties. These are:

(1) to give directions to the trustee.
(2) to ensure that all the property has been accounted for; and
(3) to ensure that expenses and fees charged by the trustee are just and reasonable.

Once your assets have been sold the trustee must prepare a statement in which he outlines how he intends to distribute the money. That is, how much each creditor will receive. This statement must be approved by the inspectors, by the Superintendent of Bankruptcy and by the courts. The creditors are then advised of the settlement (called a dividend) they will receive, when the settlement will take place and the trustee's intention to later apply for his discharge as a trustee -- which he does in due course.

14. Ask: "What is meant when a bankrupt debtor receives a "discharge"?"

Discuss this question and then read Section 8 of the Readings with the students.

8. Discharge of a Bankrupt Debtor

Once the affairs of the bankrupt debtor have been brought to a conclusion, he may apply to the courts for a complete discharge from all past debts if he meets certain conditions. These conditions are made known to the bankrupt debtor during the bankruptcy proceedings. If the court is satisfied that all matters have been handled properly and all conditions met, it will grant the debtor a complete discharge. He is relieved of all past debts.

15. Read Section 9 of Readings.

9. Summary

The present Bankruptcy Act came into force in April, 1950 and applies to the whole of Canada. The Bankruptcy Act performs three important things:

a. It sets out uniform practices that are used throughout the country (the Bankruptcy Act is a federal law, so it is applied the same way in all provinces).

b. It provides for the equitable distribution of the debtor's assets among all creditors.

c. It provides for the release of an honest but unfortunate debtor from his obligations and so permits him to resume business activities afresh.

This lesson has presented some general information relating to insolvency and bankruptcy. It was not intended that each step of the proceedings would be explained because this would all be done by court and the licensed trustee in bankruptcy. The material presented here was, however, intended to give you an understanding of how these procedures are carried out.

Indicator

16. This is mainly an information-giving lesson and the students' discussion of the material covered will determine whether the objective has been achieved. Review any difficult sections of the lesson, if necessary.

SUBJECT BUSINESS LAW

LESSON BL13 THE INDIAN ACT

INSTRUCTOR'S GUIDE

OVERVIEW

The instructor should consider this lesson an optional one. A study of the Indian Act should perhaps not be a part of a Small Business Management course. One may, however, reason that the small business manager will be very much involved in his community and a knowledge of the act will be very valuable to him.

The instructor should consider conducting this lesson where he feels it will add to the student's ability to play a more productive role in his community.

Since the Indian Act is quite involved, and since interpretation is often difficult, it is suggested that the instructor arrange for a resource person from the Department of Indian Affairs to explain the Act. There are no Readings for this lesson.

OBJECTIVE

The students will gain an understanding of the Indian Act.

REFERENCE MATERIAL FOR INSTRUCTOR

1. The Indian Act obtainable from Information Canada.
2. "Discussion Notes on the Indian Act", obtainable from the Department of Indian Affairs.

RESOURCES REQUIRED

1. Resource person from the Department of Indian Affairs to explain the Indian Act.

METHODOLOGY

Stimulus

1. Ask: "What are the main clauses of the Indian Act?" List on the flip chart.

Clarify Problem

2. Ask students to list on the flip chart the questions regarding the Indian Act which they would like answered. The lesson should be stopped here until the resource person is available. The instructor should continue with the next lesson.

Provide Information

3. If the resource person is in accord, suggest that the session be divided into two parts:

   a. an explanation of the Indian Act
   b. students' questions.

   The flip chart sheets outlining questions can help start the question period.

Indicator

4. Ask the students if the lesson on the Indian Act was worthwhile. Ask what they learned that may be of use to the businessman.

SUBJECT OFFICE PROCEDURES

LESSON OP7 HOW CAN OFFICE PROCEDURES HELP YOUR BUSINESS?

INSTRUCTOR'S GUIDE

OVERVIEW

This lesson reviews the other lessons in the Office Procedures area and also serves to indicate how Office Procedures fit into the Management Process lessons.

OBJECTIVE

The student will be able to state the tasks and the purpose of setting up definite office procedures in any business.

RESOURCES REQUIRED

1. Flip chart

METHODOLOGY

1. Hand out the Readings.
2. Read the Purpose and Introduction.

PURPOSE

In this lesson you will discuss the various ways that office procedures can help your business.

INTRODUCTION

In the business office, information about past activities, correspondence about the present and plans for future activities are stored. Records of costs, leases, contracts, payments, receipts, etc. are entered and recorded in the business office.

The office is the memory centre for the business. This is where facts and figures about the business are put into meaningful form -- reports, ledgers, journals, statements, letters, etc. The success of a business is highly dependent upon the data available to make decisions; if decisions are to be intelligent they must be based on accurate, up-to-date information. By setting up proper office procedures in your business you can provide yourself with this information.

OBJECTIVE: THE STUDENT WILL BE ABLE TO STATE THE TASKS AND THE PURPOSE OF SETTING UP DEFINITE OFFICE PROCEDURES IN ANY BUSINESS.

Stimulus

3. Ask the students to briefly outline the areas looked at in the previous Office Procedures lessons. List these on a flip chart.

4. Ask if these areas help in the operation of a business.

Clarify Problem

5. Discuss whether or not office procedures do, in fact, help the successful operation of a business.

6. Ask what they think the office management function is. List their answers on the flip chart.

Provide Information

7. Read Section 1 of the Readings.

CONTENT

1. The Office Management Function

Office work may be thought of as information handling.

The information may be on paper or it may come in other ways, such as by telephone or through meetings. Almost every individual engages in some type of office work.

Planning office work is preparation for action. Organizing office work is helping people to work toward a common goal. Controlling office work is regulating action to the planning that has been done. When you are setting up your office procedures you will be involved in the planning, organizing and controlling functions.

8. Ask, "What are the management functions learned in the Management Process lessons?" List their answers on the flip chart.

9. Read Sections 2, 3, and 4 of the Readings.

2. Planning

Planning is preparation for action. It is the process of determining and specifying what is necessary in order to reach an objective. Questions that should be answered by you when deciding on your office procedures are:

a. What should be done?
b. How should it be done?
c. How long will it take?
d. Where should it be done?
e. Who should do it?
f. Why should it be done?

Unplanned work wastes time, money, materials, and effort.

3. Organizing

If a group of people are to work together most effectively toward a common objective, planned organization is essential. With good organization necessary functions are determined and carried out using the proper procedures and physical facilities.

By organizing office work you will make sure that all necessary jobs of the office are carried out in the proper manner.

4. Controlling

Controlling is the function of regulating action in relation to the planning that has been done. It involves setting up checks or standards, comparing actual results with these standards, and making needed corrections.

10. Ask if the functions of office management tie in with the definitions given in the Management Process lessons.

11. Read Section 5 of the Readings.

5. Summary

The office procedures of any business, large or small, must be planned, organized and controlled. In planning you must decide what is to be done, and how it is to be done. You must also plan what machines you might need to speed up the flow and accuracy of information through your office. You must also plan what office supplies are going to be required. Next you must organize and control office procedures so that your plans will be carried out.

Indicator

12. Instruct the students to list the functions of office management and state under each function what jobs would be done.

SUBJECT PRODUCTION MANAGEMENT

LESSON PROD10 IS PRODUCTION MANAGEMENT NECESSARY?

INSTRUCTOR'S GUIDE

OVERVIEW

The purpose of this lesson is to relate the content of the Production Management lessons to the management process functions. It is also intended to serve as a review of the Production Management lessons. The instructor should review the lessons before presenting this lesson; he must be familiar with the content of each lesson in order to readily point out the relationship of each lesson to the functions of management.

The functions of management are: planning, organizing, directing and controlling.

The content of the Production Management lessons might be related to the functions of management as follows:

PROD10

LESSON NUMBER	LESSON TITLE	LESSON CONTENT	MANAGEMENT FUNCTION PLAN	ORGANIZE	DIRECT	CONTROL
PROD1	Introduction to Production Management	1. What is a Product?	x			
		2. What is Production Management	x			
PROD2	What Product Should You Produce?	1. Deciding on a Product	x			
		2. Facilities and Organization Requirement	x			
		3. Sales Potential	x			
		4. Costs	x			
		5. Sales Promotion and Growth	x			
		6. Money requirements	x			
		7. Labour Requirements	x			
		8. Supply Sources	x			
		9. Transportation	x			
		10. Acceptance by Community	x			
		11. Legal Requirements	x			
PROD3	Plant Location	1. Choice of Location	x			
		2. Making the Final Decision		x	x	
PROD4	Plant Layout and Work Simplification	1. Some Definitions				
		2. Making Plant Layout	x	x	x	
		3. Why Good Plant Layout is Important			x	x
		4. How Can You Simplify the Work in Your Plant	x	x	x	
PROD5	Obtaining and Maintaining Equipment	1. Equipment	x			
		2. General Purpose Equipment	x			
		3. Special Purpose Equipment	x			
		4. Cost of Equipment	x			
		5. Maintenance of Equipment	x	x	x	
		6. Why Preventative Maintenance Important?			x	x
		7. Why is Corrective Maintenance Important?			x	x
PROD6	Quality Control	1. Steps in Quality Control	x	x	x	x

PROD10

PROD7	Production Costs	1. Costs of Production	x			x
		2. What is Included in Overhead Costs	x		x	
		3. What Things Affect Production Costs	x		x	
		4. Fixed Costs	x		x	
		5. Variable Costs	x		x	
		6. Total Production Costs	x		x	
		7. Increased Volume Decreases Per Unit Cost	x		x	
PROD8	Break-even Analysis	1. What is Break-even Analysis				
		2. The Break-even Point	x			x
		3. The Break-even Chart	x			x
		4. Using Break-even Analysis	x	x	x	x
PROD9	Planning & Scheduling Production	1. Scheduling Production with Demand	x	x	x	
		2. Steps in Planning and Scheduling the Actual Production Process	x	x	x	
		3. Routing	x	x	x	
		4. Scheduling	x		x	
		5. Dispatching	x		x	
		6. Follow-up and Corrective Action.	x	x	x	x

OBJECTIVE

Given a list of production management tasks and jobs, the student will be able to state into which area of management the various production management tasks and jobs fall.

REFERENCE MATERIAL FOR INSTRUCTOR

It is suggested that the instructor review the lessons in the Management Process subject area and also review those reference readings referred to in each Production Management lesson.

RESOURCES REQUIRED

1. Exercise PROD10-1, "Checklist of Production Management Tasks, Jobs and Decisions."

METHODOLOGY

1. Hand out the Readings and read the Purpose and Introduction.

PURPOSE

This lesson shows how production management is related to the management process functions.

INTRODUCTION

The functions of management are: planning, organizing, directing and controlling.

Does the management of a production operation, big or small, have to perform these functions?

Can the manager of a production plant operate "by guess or by golly" or must he also use good management?

OBJECTIVE: GIVEN A LIST OF PRODUCTION MANAGEMENT TASKS AND JOBS, THE STUDENT WILL BE ABLE TO STATE INTO WHICH AREA OF MANAGEMENT FUNCTION THE VARIOUS PRODUCTION MANAGEMENT TASKS AND JOBS FALL.

Stimulus

2. Ask the students if they feel that a production manager has any need to know the functions of management.

Clarify Problem

3. Discuss the answers to the above question and have the students clarify their answers.

Provide Information

4. Read and discuss Section 1 of the Readings.

CONTENT

1. Production and Management Functions

The objectives of production management are:

a. to increase production
b. to decrease costs
c. to improve production methods
d. to improve product quality.

These objectives must be met within the overall business goal of offering customers the right product at the right time. The question is, how is the production manager going to successfully meet these objectives working with the resources he has available to him?

The answer is that he must apply the four management functions of planning, organizing, directing and controlling to his production operation.

5. Read Sections 2, 3, 4 and 5 of the Readings. Discuss each Section thoroughly.

2. Planning

Planning is the first step to be taken in production management. You must decide what product you are going to produce, how you are going to produce the product, and how much you should produce.

You should carefully write down your plans so you can be sure you have investigated all the important areas.

a. Is there a demand for the product you wish to produce?

b. What resources do you need to produce the product?

  (1) raw materials?
  (2) labour?
  (3) management?
  (4) land and capital?

c. How are you going to produce the product:

(1) What processes do you use?
(2) How do you schedule production?
(3) What machinery, buildings and equipment do you need?
(4) Where are you going to produce the product?

d. How much is it going to cost to produce the product?

(1) material?
(2) labour?
(3) overhead?

e. How much do you have to produce? (Break-even analysis)

f. Can you expand your operations?

(1) What is the demand volume and stability?
(2) What is your planned schedule?
(3) Can you increase production volume using present facilities and equipment?

Once you have obtained the answers to these questions in detailed form, you are ready to go on to organizing your business.

3. Organizing

In organizing the production plans, you have to make many decisions.

a. Who is going to manage?

b. Who is going to do what job?

c. Who are you going to get your materials from and how are you going to pay for them?

d. How are you going to lay out your plant?

e. When should you produce and in what quantities?

f. How are you going to sell the product?

g. Where are you going to get money from?

These are just a few of the organizing tasks you will have to arrange.

4. Directing

The directing function is the job of implementing (putting into action) the plans you have made. You must direct the operations so that they result in meeting the goals of your business. You must perform the day to day administration of your plant in order to fulfil the plans you started with. This could involve the servicing of equipment, checking the quality of materials, checking the quality of the product, disciplining employees, accounting for the costs of operation and the many other jobs of managing.

5. Controlling

In order to see how your operation is measuring up against your planning, you must set up controls. These controls could be the checking of the quality of the product against the standards demanded; the checking of actual sales against estimated sales; the checking of production costs and volume against planned costs and volume.

If your actual operations do not measure up to your plans, you must see what the differences are and what caused them, and then change your production methods or plans in order to operate better. Controls will allow you to see if your operation is proving to be successful or not and allow you to take steps to correct problems.

6. Using the chart presented in the Overview to this lesson, review the lessons of the Production Management subject area. Discuss the relationship between each lesson and the lessons of the Management Process subject area.

Indicator

7. Hand out Exercise PROD10-1, "Checklist of Production Management Tasks, Jobs and Decisions", and have the students complete it.

8. Discuss the exercise.
9. Read Section 6 of the Readings.

6. Summary

It appears that production management is necessary for the successful operation of a small production plant. The many tasks and jobs that have to be done must be performed when required and should be planned, organized and controlled.

Running a small production plant successfully is not easy even if it looks so at first glance. The manager must not only plan, organize, direct and control present operations, but he must always be thinking about and developing plans for the future successful operations of his business.

SUBJECT PRODUCTION MANAGEMENT

LESSON PROD10 IS PRODUCTION MANAGEMENT NECESSARY?

EXERCISE PROD10 - 1

CHECKLIST OF PRODUCTION MANAGEMENT TASKS, JOBS AND DECISIONS

INSTRUCTIONS

After reading each task, job or decison on the checklist below, put a checkmark (✓) in the column of the management function or functions you feel the task, job or decision is part of or should be part of.

The first two items on the checklist are completed for you as an example.

PRODUCTION TASKS, JOBS AND DECISIONS	MANAGEMENT FUNCTION			
	PLAN	ORGANIZE	DIRECT	CONTROL
1. type of product to produce	✓			
2. change of selling price	✓		✓	✓
3. quantity of product to produce				
4. add more labour				
5. purchase a new machine				
6. change layout				
7 carry less inventory				
8 buy more raw material				
9 discipline a machine operator				
10 increase production volume				
11 decrease overhead				
12 change quality standards				

PROD10

	PLAN	ORGANIZE	DIRECT	CONTROL
13. increase share of market				
14. lease a new machine				
15. hire part-time help				
16. set up a materials control system				
17. decrease selling price				
18. give additional health benefits to your staff				
19. produce another product				
20. add new products to your product line				
21. sell to wholesalers and large retailers only				
22. change the work flow pattern				
23. revise maintenance schedule				
24. allow overtime				
25. expand plant facilities				
26. quit producing one product				
27. replace equipment with labour				
28. make parts rather than buy them				

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB44 FINANCE, ACCOUNTING, BOOKKEEPING AND THE MANAGEMENT PROCESS

INSTRUCTOR'S GUIDE

OVERVIEW

This lesson serves as a review of the Finance, Accounting and Bookkeeping subject area. The students are asked to review the lessons in this area as they relate to the management process functions of planning, organizing, directing and controlling. Bookkeeping, financial management, and accounting are not isolated tasks, but must be used as part of the total concept of business. In fact, the only reason for performing the tasks of bookkeeping, accounting and financial management is to allow the businessman to plan and control the financial operations of the business. How well he performs these functions is generally shown in terms of money gained or lost.

OBJECTIVE

The students will state how the tasks of financial management, accounting and bookkeeping fit into the functions of the management process.

RESOURCES REQUIRED

1. Previous FAB lessons.

METHODOLOGY

1. Hand out the Readings and read the Purpose and Introduction.

PURPOSE

The purpose of this lesson is to examine the Finance, Accounting, Bookkeeping subject area and its relationship with the Management Process functions.

INTRODUCTION

The principal functions of management are: planning, organizing, directing and controlling. All the tasks that must be performed in the operation of a business are a result of these functions. You have to plan where you are going to locate your business, what products you are going to sell, whether you are going to produce or buy the products for resale, what price you are going to charge, how many employees you are going to hire, how you are going to pay these employees, what jobs they are going to perform, and so on.

You have to organize the legal form of business you are going to set up and the areas of each employee's responsibility. You have to direct the employees as to what to produce, how to produce it, where to product it, where products are to be bought from, what size orders are to be ordered, how orders are to be passed down the organization. You then have to control the operations to see that the activities are performed as planned, the products produced are meeting your quality control standards, the employees are performing the tasks assigned to them. The list could go on to include every task of running a business.

The question you should now ask yourself is: "How does the dollar side of business fit into the management process functions?"

OBJECTIVE: THE STUDENTS WILL STATE HOW THE TASKS OF FINANCIAL MANAGEMENT, ACCOUNTING, AND BOOKKEEPING FIT INTO THE FUNCTIONS OF THE MANAGEMENT PROCESS.

Stimulus

2. Ask if the lessons studied in the FAB subject area can be shown to fit into the management process functions.

Clarify Problem

3. Using an index of the FAB lessons (see FAB1, "Introduction to Finance, Accounting, Bookkeeping"), have the students put the headings planning, organizing, directing, controlling on the flip chart, then attempt to place each FAB lesson into the category that best explains its function.

   Discuss the students' reasons for the placements they chose. Discuss the content of the lessons, if necessary.

Provide Information

4. Read Sections 1, 2, 3 and 4 of the Readings. Discuss the breakdown by comparing the Readings to the students' list.

CONTENT

1. Recording Dollar Information

The businessman relies on his records to provide him with accurate information for making decisions. Lack of accurate data is one of the principal causes of business failure. The recording and the using of accurate data has been the basis of the Finance, Accounting, Bookkeeping subject area.

The records of the activities of a business contain the history of the dollar side of the business. The Cash Payments Journal shows who you paid money to, what it was paid for, and when it was paid. The Cash Receipts Journal shows who you received money from, what it was received for, and when it was received. The Sales Journal shows how much you purchased on account, who you purchased it from, and when you purchased it. The Accounts Payable Subsidiary Ledger shows who you owe money to and how much money you owe to each creditor. The Accounts Receivable Subsidiary Ledger shows who owes you money, and how much each debtor owes you.

The lessons that dealt with the preparation of the books of a business were:

FAB4	Starting the Bookkeeping System
5	Recording Business Transactions
6	Recording Revenues and Expenses
11	Recording Closing Entries
13	Bookkeeping Reviewed
14	Recording Your Purchases

FAB16	Recording Credit Sales
17	Recording Cash Receipts
19	Recording Cash Payments
20	Handling and Recording Cash
21	Banking
22	The General Journal
24	Adjustments for Inventory
26	Payroll Deductions
27	Recording the Payroll
28	The Synoptic Journal
29	Depreciation

2. Planning the Dollar Side of the Business

The questions of where and when you will get the money you need to operate your business, and exactly how you are going to repay this money must be decided by every businessman. During the course you have discussed these questions and some of their solutions. You learned that you will have to perform this planning function in order to chart the course of your business, and to support any applications for loans or grants.

FAB12	Sources of Funds For Starting a Business
15	Should you Sell on Credit?
35	Financial Management
38	Working Capital
39	Planning and Budgeting
40	The Cash Budget
41	The Operating Budget
42	Projected Financial Statements
43	Financing the Business

3. Controlling the Dollar Side of the Business

As important as planning is the function of controlling business activities in order to carry out the plans. Control of the dollars of a business is essential in order that funds are available when necessary and are used to carry out the plans. You must regularly analyze your records to see if you have met the plans laid out. In the course, you learned many of the tools that are used to control a business in order to spot difficulties before they cause problems.

FAB7	Taking The Trial Balance
8	Preparing the Work Sheet
9	Elementary Profit and Loss Statement
10	Elementary Balance Sheet
25	Financial Statements

FAB31	Preparing Financial Statements
35	Financial Management
36	Analyzing the Profit & Loss Statement
37	Analyzing the Balance Sheet
38	Working Capital
39	Planning and Budgeting
40	The Cash Budget
41	The Operating Budget
42	Projected Financial Statements
43	Financing the Business

4. Summary

Just as in the management area of business, the dollar side of business must be planned, organized, directed, and controlled. One of your major responsibilities as a manager will be to see that funds are being spent properly. How are you going to carry out this responsibility?

Indicator

5. The indicator for this lesson is the discussion.

SUBJECT MANAGEMENT PROCESS

LESSON MP15 BUSINESS AND THE COMMUNITY

INSTRUCTOR'S GUIDE

OVERVIEW

It is important that the students see the impact of a positive relationship between the business and the community. This being one of the last lessons of the course; it is now vital that the students see how they can promote their businesses to produce the goodwill desired.

Public relations is often seen as something special. It is even regarded at times as "shady" technique, by which people can be influenced to believe something which does not exist in reality.

The student should realize that good public relations will have an impact on the public which can be of mutual benefit. By providing accurate information, the businessman can avoid rumours and attitudes which are detrimental to the business. By a conscious effort, he can produce impressions in the public mind about his business which will bring goodwill, rather than ill will.

OBJECTIVE

The student will be aware of the importance of public relations in promoting the business in the community.

REFERENCE MATERIAL FOR INSTRUCTOR

1. Broom, H.N. and Longenecker, J.G. Small Business Management. Cincinnati, Ohio: South-Western Publishing Co., 1966, ch. 2.

RESOURCES REQUIRED

1. Film, "People At Dipper" (18 minutes)
2. Film, "Indian Dialogue" (28 minutes).

METHODOLOGY

1. Hand out the Readings; read and discuss the Purpose and Introduction.

PURPOSE

This lesson will examine the relationship between the business and the community.

INTRODUCTION

You have seen that every business has objectives and also satisfies needs. One of the objectives of a business is to make a profit. A business also satisfies needs, or contributes to individuals (employees, customers, owners, managers) in the form of wages, services and profits. In return the business receives from the suppliers, the community and the government. Therefore, every business gives and receives.

In this lesson we will examine more closely the relationship of the community and business. If business is not aware of its relationship with the community, it can lose a powerful force for the advancement of the business as well as for the community.

In the old days, a business could be run without too much concern for other persons. Now people are more aware of our social responsibility and we find people challenging or boycotting a business if it does not contribute sufficiently to the community.

In this lesson, in addition to considering business objectives and their relationship to the community, you will look at the place of public relations in a small business.

OBJECTIVE: THE STUDENT WILL BE AWARE OF THE IMPORTANCE OF PUBLIC RELATIONS IN PROMOTING THE BUSINESS IN THE COMMUNITY.

Stimulus

2. Ask the students: "What is public relations?"

Clarify Problem

3. List the various definitions on the flip chart and discuss.

Provide Information

4. Read Sections 1 and 2 of the Readings.

CONTENT

1. Service Objectives of Business

Society allows business to be conducted in its communities. This is because society expects business to render the community a contribution by providing useful goods and services. If the business does not render this contribution, the business cannot expect to survive in the long run. The business must keep this contribution in mind or it will undoubtedly fail.

2. Profit Objective

Profit must be a goal of every business. Profit is a reward to the businessman for his management, work and risk. The level of profit will depend on the business and the circumstances, but an unrealistic profit will not be accepted by the community. Deciding the correct amount, however, is difficult to assess.

It is obvious that a business operating at a loss cannot survive long; once working capital becomes depleted, the business cannot provide the services it should.

A businessman who lets his social responsibilities change his organization from a profit-oriented organization to a charity-oriented organization will not be in business long.

A business which has a long-run profit motive can still have a social responsibility to the community. The businessman can personally contribute to the community through the Chamber of Commerce, Board of Trade, charitable organizations, community projects, etc.

In addition to his voluntary contributions, the businessman has a moral and social responsibility to his community. Through fair business practices, proper pollution controls, honest advertising, as well as research to make better products and give better service, the businessman can help to make the community a better place to live.

5. Discuss the different business objectives contained in Sections 1 and 2, as well as those in previous lessons. Are these realistic for most small businesses? The students may feel that the profit motive is not realistic in a native business where sharing is a custom. They should realize that unless there is a profit, it is unlikely that the business will exist very long as a service to the community.

6. Ask the students: "How does the small businessman go about relating to the public? Whom does he approach?" List ideas on the flip chart and discuss.

7. Read Sections 3 and 4 of the Readings.

3. Public Relations

Often the community misunderstands the contributions which a business makes to it. Public relations help promote understanding between the business organization and the various groups of people forming the community. The promotion of this understanding is the responsibility of the manager.

Public relations must not whitewash the business or conceal poor products and poor service. Consistency between what the business does and what the public is told is essential.

In order to cultivate good public relations, the manager should inform the general public of the contribution the business makes. In addition, having good public relations is a way to "sell" the company's objectives, practices, and products to the public. Improved communication can avoid a lot of misunderstanding, for example, a businessman who cannot give credit must be able to explain to his customers why credit is impossible, rather than just saying "No credit". The manager should explain that he must have cash to purchase goods to place on his shelves and that lack of money in the business means poor service to the community. This type of explanation is not easy, since a person in need of groceries, for example, sees his needs as more immediate and important than the future of the business. However, the businessman must be polite, courteous and firm. Even if the customer becomes angry, the businessman must not lose his temper.

Relations with the public take place every day. A better understanding of the business can be given to the public in a number of ways: by everyday polite and friendly service, by promoting good morale for and providing good leadership to employees, by community work, by favourable news releases, good advertising and contact with suppliers and government personnel.

Public relations permit the community to know the business. A business may be ethical and have good products or services, but without good public relations, the community or individuals in it may misunderstand what the business is doing as well as the contribution it is making.

4. Public Relations in Action

Good public relations are easier to maintain if the businessman recognizes that different segments exist in his community. Since the business has different relationships with different groups, and each group has its own interests, the businessman must appeal to each on a separate basis.

a. Employee Relations

Employees are an important group for the public relations of a business. The businessman must obtain his employees' goodwill to have good public relations. Since employees have relatives and friends, the employees' attitudes and feelings toward the business will almost automatically be transmitted to other segments of the community.

If the employees feel satisfied with the business this can have a positive effect on the community's feelings toward the business. On the other hand, if the employees are discontented, they will complain about the business. Many people regard the employees' attitudes highly because the employees have a close look at the business.

b. Customer Relations

Customers are probably the most important people with whom good public relations should be practised. A customer who is well satisfied is the best advertisement, as he is sure to tell and influence other present or potential customers. A dissatisfied customer has the reverse effect.

With customers, public relations can be handled in the course of everyday business. In a retail or service business, the customer forms his impressions largely through his personal experiences. The way the customer is served has a bearing on how he will see the business. Service which is friendly, courteous, speedy and accurate will provide good feelings towards the business, whereas poor service can prove costly to the business. Proper training and supervision of employees is therefore needed to provide the service the customer should have.

c. Supplier Relations
The business deals with a number of suppliers. Good relations are improved by courteous handling of sales representatives and prompt payment of accounts.

Good supplier relations can pay off in good guidance of materials which are most likely to move. In addition, they are helpful when liberal terms of purchase are desired and when quick delivery or other special treatment is necessary.

d. Community Relations
The business will enjoy a certain degree of local prestige or ill will depending on how the business appears to the community. A business with prestige is more likely to attract good workers and customers. Advertising and promotion, as well as business contacts in the community, are ways of making the business better-known and appreciated.

e. Competitor Relations
There is even a possibility for competitors to work together to help the community as well as help the businesses. Competitors do not have to be at each other's throats. There is no need for price wars, etc. Very often both the businesses and the community lose by these tactics.

8. Have the students discuss the Readings, and compare the ideas given to their initial idea of public relations. Ask them if it makes sense to consider the different publics (employees, customers, etc.). Stress of importance of public relations in small communities.

9. Read Section 5 of the Readings.

5. Summary

Public relations is the effort the businessman makes to have a good understanding with the various people with which the business usually comes into contact as well as the public at large. The businessman must consistently be conscious of the impact of his actions on his community.

Indicator

10. Have the students discuss the ways in which they might be involved with public relations in their prospective businesses.

Students should discuss special problems they may encounter, either because they will be working in native communities, or because they are of Indian ancestry themselves.

Ask: "Is the native person likely to encounter special problems or conflicts in going into business? In his own community? In a white community? Can the native person go into business and still retain his culture?" It is hoped that native people will see business as a means of gaining economic power to favour their cultural fulfilment.

Ask: "If there are special problems, what public relations would be effective to promote the business and minimize undesirable effects in the native community? In the white community?"

11. Draw the students' attention to the fact that native people have not traditionally been involved in business. Ask: "Will your communities tend to favour a white businessman? Why or why not?" Answers to this question may provide a clue to strengths on which the native students will want to capitalize, or will perhaps show them weaknesses of which they will want to be aware in order to make a special public relations effort.

12 Show the films, "People at Dipper" and "Indian Dialogue". The films should encourage discussion of the way of life of native people. How do the students see themselves? Living the old way? Living the 'modern Indian way' in which they are involved in business and still retain their culture?

Discussion of this topic is important prior to leaving the course, since the native community will be one of the publics with which the native businessman will be dealing.

Ask: "Do you believe that the "modern native" is the person of Indian ancestry who has learned to cope with the business world and non-native way of life, while at the same time retaining his own culture and pride in his ancestry?"

SUBJECT MANAGEMENT PROCESS

LESSON MP16 THE BUSINESSMAN AND BUSINESS ETHICS

INSTRUCTOR'S GUIDE

OVERVIEW

This lesson should give the student an idea of business ethics. When the student goes out into the business world, he will be faced not only with management decisions in a business sense but also with money decisions of a personal nature in which he will have to decide what course is right or wrong.

In most cases, there will be no one to tell him what to do. He will have to rely on his own sense of responsibility and his ethical principles to guide him in his decisions.

It is suggested that the instructor involve the students in discussing the problem of ethics which will face them in the business world.

OBJECTIVE

The student will have an awareness of the ethical problems facing the small businessman.

REFERENCE MATERIAL FOR INSTRUCTOR

1. Broom, H.N. and Longenecker, J.G. Small Business Management. Cincinnati, Ohio: South-Western Publishing Company, 1966, pp. 26-30.

2. Sisk, Henry L. Principles of Management. Cincinnati, Ohio: South Western Publishing Company, 1969, pp. 58-73.

3. Terry, George R. Principles of Management. Homewood, Illinois: Richard O. Irwin Inc., 1968, pp. 196-200.

RESOURCES REQUIRED

1. Two flip charts.

METHODOLOGY

1. Hand out Readings; read and discuss the Purpose and Introduction.

PURPOSE

This lesson considers the businessman's position in dealing with matters of right and wrong in business.

INTRODUCTION

Everyone must decide in the course of life between what he considers right and what he considers wrong. The businessman is no exception. He is faced daily with decisions which involve right or wrong.

The businessman finds pressures on him to cut corners to make a little extra profit. What are the consequences for the people who deal with such a business?

OBJECTIVE: THE STUDENT WILL HAVE AN AWARENESS OF THE ETHICAL PROBLEMS FACING THE SMALL BUSINESSMAN.

Stimulus

2. Ask the students: "Is it possible to be honest in business?"

Clarify the Problem

3. You will likely receive both positive and negative responses to the question. Have the students list on the flip chart their reasons for considering it possible or impossible to be honest.

Discuss. Ask the students: "What are the most common types of dishonesties you have seen in small business?" List and discuss.

Provide Information

4. Read and discuss sections 1, 2 and 3 of the Readings.

CONTENT

1. Nature of Ethics

Ethics deals with personal conduct in respect to right and wrong. Ethics or a code of ethics is a guideline which an individual can adopt to guide him in determining if he is doing the right thing.

In business there are many decisions which must be made regarding right and wrong. How do you treat employees, customers, suppliers, creditors, etc? Is the law the minimum code of ethics? Is being caught the guideline to be used?

To some people anything that is not against the law appears right. To others it is all right to do something as long as there is no danger of being caught. This seems a very unsatisfactory method of determining what is right or wrong.

2. Selecting a Personal Code of Ethics

Certain industries and professions like doctors, lawyers and accountants have a code of ethics which the profession draws up for its members. The profession attempts to police its members so that the profession is highly regarded.

The small businessman will need a personal code of ethics to guide him and to police his actions. He can set up a complex code which sets guidelines to follow in different circumstances, but this is impractical.

Probably the easiest and best ethical principle is the golden rule, "Do unto others as you would have them do unto you." The golden rule as an ethical principle considers everyone as a human being with likes and dislikes, strengths and weaknesses, with different talents and emotional reactions. The golden role suggests that all human beings be treated with respect and fairness in all dealings as one would wish to be treated personally.

3. Practical Problems in Establishing Guidelines

The application of the golden rule is often difficult. Since you know that many people deal unfairly or dishonestly, you rationalize that it is acceptable for you to behave in a similar manner. It is quite common in business to use deceptive advertising, tricky statements, exaggerated claims, misleading comparisons, etc. There is, however, a growing awareness in business of a social responsibility, and many businessmen are searching for a more ethical way to do business.

You often feel justified for various other reasons. Some people say that they are honest in the big things but commit small dishonesties. There is a tendency to engage in small violations which take advantage of others to enhance immediate business success. This can lead eventually to complete moral irresponsibility.

It is difficult to conceal or hide unethical business practices. It is almost impossible to hide insincerity or lack of integrity from employees. In a short while, the public will be aware of your tactics.

5. Ask: "Does it seem realistic to follow the golden rule in business?"

6. Read and discuss sections 4 and 5 of the Readings.

4. Guidelines For Success

The following guidelines can be useful in determining what you as a manager should do in your business.

a. Deal honourably with those from whom you buy as well as those to whom you sell. Try to give your customers complete satisfaction.

b. Be honest with yourself, for your greatest asset is your character and money cannot purchase it.

5. Summary

Being honest in business is not always easy but if you follow the golden rule you will not lose sight of your goal.

MP16

> If you are honest with yourself and if you deal honourably with others as you would have others deal with you, you will favour the goodwill which is essential for success.

Indicator

7. Ask the students what special problems they foresee in operating a business in an ethical way.

SUBJECT MANAGEMENT PROCESS

LESSON MP17 REVIEW OF THE COURSE

INSTRUCTOR'S GUIDE

OVERVIEW

The students have now completed the course; for most, it will have been an experience in a totally new area. The course attempted to show the close relationships among various aspects of business management. Since the subject area was new, some students may have had some difficulty in integrating all aspects.

The review should be an opportunity to go over the content of each subject area, and to see how each fits into the management process.

OBJECTIVES

1. The students will assess their readiness for going into business by completing a checklist.
2. The students will review the course content.

METHODOLOGY

1. Do not hand out the Readings immediately.

MP17

OBJECTIVE 1: THE STUDENTS WILL ASSESS THEIR READINESS FOR GOING INTO BUSINESS BY COMPLETING A CHECKLIST.

Stimulus

2. Ask: "Are you now ready to go into business for yourself or to manage a business for someone else?" Discuss.

Clarify Problem

3. Mention: "We have learned many things during the course. Does taking the course prepare a person to go into business?" Discuss. Have students list on the flip chart the things they want to check before going into business. Discuss.

Provide Information

4. Hand out the Readings; read and discuss the Purpose and Introduction.

PURPOSE

In this lesson you will review the Small Business Management course, and you will complete a checklist of questions to carefully consider before going into business.

INTRODUCTION

People sometimes go into business without being fully aware of what is involved. Sometimes they are lucky and succeed. More often, they fail because they do not consider one or more of the things needed for business success.

The checklist below is designed to help you decide if you have considered the many things involved in going into business for yourself. If you think carefully about these things now you may prevent mistakes and avoid losing money at a later time.

No checklist can be perfect. Consider each question as it applies to your situation. Make an effort to answer each question honestly. Before you omit a question be sure that it does not apply to your particular situation.

The checklist should help you in your review. It may draw attention to points you have overlooked in taking the course. If you have overlooked some aspects, discuss these with the group and the instructor to determine what can be done.

5. Have each student complete the checklist, then discuss each question with the students and compare it to the list the students have on the flip chart. Ask: "Were many aspects missed or forgotten?" Discuss.

CONTENT

1. Checklist for Going Into Business (Questions to Consider)

	YES	NO
ARE YOU THE TYPE?		
1. Have you rated your personal traits such as leadership, organizing ability, perseverence, and physical energy?	____	____
2. Have you had some friends rate you on them?	____	____
3. Have you considered getting a partner or helper whose strong points will offset your weak points?	____	____
WHAT ARE YOUR CHANCES FOR SUCCESS		
4. Have you had any actual business experience?	____	____
5. Do you have special technical skills (such as those needed by a plumber, electrician, mechanic, or radio repairman) that will be required in your type of business?	____	____
6. Have you obtained some basic management experience working for someone else?	____	____

7. Have you looked at the recent trend of business conditions (good or bad)? ____ ____

8. Have you looked at how good things are in the line of business you are planning? ____ ____

9. Have you analyzed business conditions in the city and neighbourhood where you want to locate? ____ ____

10. Have you determined what size business you plan to establish (dollar sales per year)? ____ ____

11. Have you built up a detailed set of figures on how much capital you will need to launch the business? ____ ____

12. Have you figured how much time you will need until the business income equals the expenses (that is, until you make a profit)? ____ ____

13. Have you planned what net profit you believe you should make? 1st year? 2nd year? etc.? ____ ____

14. Can you make more money running your own business than you could working for somebody else? ____ ____

HOW MUCH CAPITAL WILL YOU NEED?

15. Have you worked out what income from sales or services you can reasonably expect in the first 6 months? The first year? The second year? ____ ____

16. Do you know what net profit you can expect on these sales volumes? ____ ____

17. Have you decided how much your business will be able to afford to pay you? ____ ____

18. Have you compared this income with what you could make working for someone else? ____ ____

19. Are you willing to risk uncertain or irregular income for the next year? Two years? ____ ____

20. Have you counted up how much actual money you have to invest in your business? ____ ____

21. Do you have other assets which you could sell or on which you could borrow? ____ ____

22. Have you some other source from which you could borrow money? ____ ____

23. Have you talked to a banker? Government agencies? ____ ____

24. Are they favourably impressed with your plans? ____ ____

25. Do you have a financial reserve for unexpected needs? ____ ____

26. Does your total capital from all resources cover your best estimates of the capital you will need? ____ ____

SHOULD YOU SHARE OWNERSHIP WITH OTHERS?

27. Do you lack needed technical or management skills which can be supplied by one or more partners? ____ ____

28. Do you need the financial assistance of one or more partners? ____ ____

29. Have you checked the features of each form of organization (individual proprietorship, partnership, co-operative) to see which will best fit your situation? ____ ____

WHERE SHOULD YOU LOCATE?

30. Do you know how much space you will need? ____ ____

31. Do you know what type of building you will need? ____ ____

32. Do you know of any special features you require in lighting, heating, ventilating, air conditioning, or parking facilities? ____ ____

33. Have you listed the tools and equipment you need room for? ____ ____

34. If the proposed location does not meet all your requirements, is there a good reason why you should not wait and continue hunting for a more ideal location? ____ ____

35. Have you checked the population and income figures in the area you wish to locate? ____ ____

SHOULD YOU BUY A GOING BUSINESS?

36. Have you considered the advantages and disadvantages of buying a going business? ____ ____

37. Have you compared what it would take to equip and stock a new business with the price asked for the business you are considering? ____ ____

38. Have you learned why the present owner wants to sell? ____ ____

39. Have you checked the owner's claims about the business? ____ ____

40. Have you checked with this business's suppliers to get their ideas on how good the business is? ____ ____

41. Do the suppliers think well of the proposition? ____ ____

42. Is the stock of merchandise (inventory) a good buy? (Would a large proportion of it have to be disposed of at a loss? Is any of it out of date, unsalable, or not usable?) ____ ____

43. Are the physical facilities (building and equipment) old or in poor condition? ____ ____

44. Are you sure the accounts receivable are worth the asking price? (Will they be collectable?) ____ ____

45. Does this business you want to buy have a good image? ____ ____

46. Are you prepared to assume the liabilities, and are the creditors agreeable? ____ ____

47. Has your lawyer checked to see if the title is good and if there is any lien against the assets? ____ ____

48. Are there any back taxes to pay? ____ ____

49. Have the sales been temporarily increased by conditions which are not likely to continue? (For example, sale of fixed assets) ____ ____

ARE YOU QUALIFIED TO SUPERVISE BUYING AND SELLING?

50. Have you estimated your total stock (inventory) requirements? ____ ____

51. Do you know in what quantities customers buy your product or service? ____ ____

52. Do you know how often customers buy your product or service? ____ ____

53. Have you made a sales analysis to determine what major lines to carry? ____ ____

54. Have you decided what quality you will require in your goods? ____ ____

55. Have you decided what quality you will require in your goods? ____ ____

56. Have you investigated whether it will be cheaper to buy large quantities infrequently or in small quantities frequently? ____ ____

57. Have you weighed price differentials for large orders against capital and space tied up? ____ ____

58. Have you decided what merchandise to buy direct from manufacturers? ____ ____

59. Will you make your account more valuable to your suppliers by concentrating your buying with a few of them? ____ ____

60. Have you worked out control plans to ensure stocking the right quantities? ____ ____

HOW WILL YOU PRICE YOUR PRODUCTS AND SERVICES?

61. Have you determined what prices you will have to charge to cover your costs and make a profit? ____ ____

62. Do these prices compare favourably with prices of competitors? ____ ____

WHAT SELLING METHODS WILL YOU USE?

63. Have you studied the sales promotional methods used by competitors? ____ ____

64. Have you outlined your own sales promotion program? ____ ____

65. Have you studied why customers buy your product (for example, service, price, quality, distinctive styling, other)? ____ ____

66. Will you have sales clerks? ____ ____

67. Will you advertise in the newspapers? ____ ____

68. Will you do direct mail advertising? ____ ____

69. Will you give out free samples? ____ ____

70. Will you use radio and television advertising? ____ ____

HOW WILL YOU MANAGE PERSONNEL?

71. Will you be able to hire satisfactory employees, locally, to supply skills you lack? ____ ____

72. Do you know what skills are necessary? ____ ____

73. Have you checked the prevailing wage scales? ____ ____

74. Have you a clear-cut idea of what you plan to pay? ____ ____

75. Have you considered hiring someone now employed by a competitor? ____ ____

76. Have you checked on the advantages and disadvantages of hiring a relative? ____ ____

77. Have you planned your training procedures? ____ ____

WHAT RECORDS WILL YOU KEEP?

78. Have you a suitable bookkeeping system ready to operate? ____ ____

79. Have you planned an inventory control system? ____ ____

80. Have you found out standard operating ratios for your type of business to use as guides? ____ ____

81. Have you provided for additional records as necessary? ____ ____

82. Have you a system to use in keeping a check on costs? ____ ____

83. Do you need any special forms? ____ ____

84. Have you made arrangements for having your recordkeeping done? ____ ____

WHAT LAWS WILL AFFECT YOU?

85. Have you investigated what, if any, licences you will need to do business? ____ ____

86. Have you checked the health regulations? ____ ____

87. Are your operations subject to certain hours of business? ____ ____

88. Have you seen your lawyer for advice on how to meet your legal responsibilities? ____ ____

WHAT OTHER PROBLEMS WILL YOU FACE?

89. Have you worked out a system for handling your tax requirements? ____ ____

90. Have you arranged for adequate insurance coverage? (for yourself? for your business assets?) ____ ____

91. Have you worked out a way of getting along with your partner or employees? ____ ____

92. Does your family (if any) agree that your planned business venture is sound? ____ ____

93. Do you have enough capital to carry accounts receivable? ____ ____

94. Will you sell for credit? ____ ____

95. Have you worked out a definite returned goods policy? ____ ____

96. Have you considered other management policies which must be established? ____ ____

97. Have you planned how you will organize and assign the work? ____ ____

98. Have you made a work plan for yourself? ____ ____

WILL YOU KEEP UP TO DATE?

99. Have you a plan for keeping up with new developments in your line of business? ____ ____

100. Have you figured out who you will go to when you need help in solving business problems? ____ ____

Indicator

6. Student discussion.

OBJECTIVE 2: THE STUDENTS WILL REVIEW THE COURSE.

METHODOLOGY

The first part of the review should be conducted by subject area. A complete review of the subject areas of Finance, Accounting, Bookkeeping, Marketing and Personnel Management is suggested as a first approach.

This review will give the student a bird's eye view of all that is involved in each subject area. For example, the students should review the accounting process from the sale invoice to the completion of the financial statements. The same can be done for the other subject areas.

The second part of the review should, for the last time, attempt to tie together and integrate all the subject areas into the management process. Business management should be shown as an on-going process which involves all the subject areas to achieve the objectives of the business.

The end of the course should not be an end to learning about business management, but the beginning of a lifetime of learning. The course will facilitate learning by experience; it has provided an introduction to many topics which the students can study in greater depth through reading, discussions and specialized business management courses.

SUBJECT MANAGEMENT PROCESS

LESSON MP18 EVALUATION

INSTRUCTOR'S GUIDE

OVERVIEW

This last lesson may be one of the most important from your point of view. During the course you will have made an attempt to get feedback from the students. This lesson will facilitate more specific and detailed feedback, allowing you to determine what the students think of the course.

During this lesson you should be open to all suggestions made by the students. You will have to guard against a defensive attitude if students are critical of certain aspects of the course. You will have to analyze the evaluation made by the students and decide whether or not the students were right in their evaluation of the course. In final analysis, it is you who must conduct the course; you may have to do things which the students dislike but which you consider essential to their preparation for business and for life.

This evaluation session may be conducted by an administrator, if it seems appropriate. The instructor should feel free to develop his own methods for conducting this lesson.

OBJECTIVE

To obtain feedback from the students which will provide the instructor with a basis for evaluating the course and his instructional techniques.

METHODOLOGY

1. Hand out the Readings and read the Purpose and Introduction. Discuss the importance of this evaluation for future students.

PURPOSE

The purpose of this lesson is to look at the content of the course and the methods of learning used to see what you think of them and provide useful suggestions which could be used with other students.

INTRODUCTION

The approach used in this course is quite different from what you would find in other courses. An attempt has been made to make the course practical and useful in preparing you for a career in business management. In order to follow the intention of the course, the instructor needs feedback of the students' impressions of the course. This last lesson is to spend a few hours analyzing the course to see its good points, its weaknesses, how it might be improved for other students.

For this type of evaluation to work, it is absolutely necessary that everyone be honest and open in his remarks. This is your greatest contribution to future students.

2. Divide the students into small groups of four or five. Provide each group with sheets of flip chart paper and marking pencils. Have each group elect a recording secretary and a group discussion leader who will see that all group members have a chance to participate.

3. Read Section 1 of the Readings.

CONTENT

1. Evaluating the Small Business Management Course

You will be provided with a number of sheets of flip chart paper. Head one sheet with "Things We Disliked or

Weaknesses of the Course". On another sheet write "Things We Liked or Good Points of the Course".

The discussion leader should see that each person in the group has an opportunity to have his say. Start with the things you disliked about the course. Use the following list as a guide of things to consider. Add any others you wish. Have the secretary list in as short a form as possible all the ideas in the group. Use as many sheets of paper as you need.

a. Course content

(1) Management Process
(2) Finance, Accounting, Bookkeeping
(3) Marketing
(4) Personnel Management
(5) Office Procedures
(6) Business Law
(7) Business Communications
(8) Production Management

b. Training methods

(1) discussions
(2) readings
(3) projectuals
(4) films
(5) resource people and visitors
(6) projects
(7) tours
(8) exercises
(9) role playing
(10) cases

c. Length of course

d. Upgrading and other courses prior to Small Business Management course.

e. Learning atmosphere

f. Group participation

g. Public speaking

h. On-the-job training

i. Evaluation

j. Discipline

k. Special problems such as:

    (1) housing
    (2) allowance
    (3) counselling
    (4) recreation

l. School facilities

m. Student selection

n. Other

Now use the other flip chart sheet "Things We Liked or Good Points of the Course". Again, the group discussion leader should encourage the group members to list on the flip chart all their ideas. Use the same categories above to guide you, and add any topics you wish.

4. Check with the students to make sure that the instructions are clear. The intent is a brainstorming or listing in as brief a form as possible on the flip chart sheets of all the things they disliked and liked about the course. The students can use the topics listed in the Readings as a guide.

5. When the students have completed their listing on the flip chart sheets, ask each group to put their flip chart sheets on the wall with marking tape. Then have students reconvene into the larger group. You may wish tables to be removed to give a closer group atmosphere.

   Go over the points on each flip chart. As each point is read out, ask the students to explain more fully their point of view. Ask others to comment and discuss, and to make suggestions as to how any difficulties might be corrected.

6. Involve the students in discussion of the following topics:

   a. What could be added to the course to make it more useful?

   b. What changes should be considered?

   c. What was the most important things learned?

   d. Was the content of the course too difficult, too easy, just right?

e. Did you gain self-confidence, better communication skills, problem-solving skills, etc. during the course?

Summary and Conclusion

You may wish to discuss some aspects of the students' life after the course has ended, such as getting established in job or in business, the ups and downs of business life, and the drag-down attitude which students may encounter.

This last point may need some explanation. In many small communities there is a strong pressure for everyone to conform to the same life styles. Anyone who dares be different may have to fight strong social pressures. This problem often faces a Native person who sets up business in his home community.

Former students have found this attitude difficult to deal with. However, if the students are aware that this pressure may be directed towards them, there is less danger of them abandoning their goals.

It is important that the students returning to their communities be conscious of their roles as members of those communities. They should not try to set themselves apart because they have had training, but should work with their neighbours so they can, over an extended period of time help the communities in various ways to develop and attain the goals for which they are striving.

The drag-down attitude is especially hard on those who come into a community with a hope for quick reform. The students must remember that most people in their communities will not have had the opportunities they have had. They must progress slowly in any attempted development. It is important that the students not let themselves be discouraged and that they continue to work toward their personal goals and toward a better community life.